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Towards a Just and Favourable Minimum Wage: A Matter of Design?

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Any expressed views in this paper belong to the author only and may be inconsistent with recommendations made to the government. Comments would be welcome.

OVERVIEW

This paper considers the arguments for and against the minimum wage as an instrument of social policy. It finds the evidence to suggest little negative consequence from minimum wage increases, but also to be limited in a number of respects, and as such of only limited value for anticipating the effects of major increases to the minimum wage. It also finds that, although the minimum wage is often argued to be a blunt instrument for reducing poverty and inequality, it may still have important implications for these objectives. Moreover, it argues that these objectives should in any case be considered secondary to the policy objectives of ensuring that the pay of low-pay workers is just, reflecting the potential value of their labour, and that it is favourable, or sufficient for them to be able to participate in their community with dignity. The critical issue may be not whether to have a minimum wage that meets the dual objectives of being just and favourable, but rather how this wage is to be designed. The paper presents Labour Force Survey data in support of this argument, exploring the implications of alternative standards for setting the minimum wage and of various exemptions and implementation systems.

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Part I

Introduction

Article 23 of the U.N. Declaration on Human Rights states that "everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection." In other words, "just and favourable remuneration" should be considered a basic right. Consistent with this right, all labour force participants should be able not only to achieve self-sufficiency with respect to their most basic needs for food and shelter, but also to live and participate in their community with dignity. Otherwise, even those who work full-time, year-round can find themselves in an economic cage that violates any meaningful concept of a free society. Low wages can not only mean material deprivation, they can also convey a sense of low value to society, with implications for self-esteem. A just and favourable minimum wage policy would be designed to ensure that this does not happen.

The time is right to seriously consider implementing such a policy. Although the economic and social policy reforms of the past few decades have been justified as necessary to make the economy more competitive and hence ultimately to improve living standards, wages have remained virtually stagnant. Not only has this left many without much hope for a better future, it may have contributed to a growing cynicism and individualization, with working Canadians -- especially those in the bottom half of the income hierarchy -- loosing confidence in their institutions and trust in their leaders.

This problem cannot be attributed solely or even primarily to lagging productivity, as those who favour more of the same reforms have attempted to argue. The Canadian economy has seen productivity gains of more than 25 percent per hour worked since the late 1970s, yet these gains have not been reflected in higher income levels. There is no a priori reason to

believe that they will be in future. Indeed, those at the bottom of the income hierarchy -- especially those in low pay jobs -- appear to have been harmed more than helped by the reforms of the past two decades. It is time that governments focused more on achieving gains specifically for these workers. It is they, not those at the top, who need a raise.

The minimum wage represents only one of a number of possible vehicles for addressing this problem. But, almost by definition, it could be expected to have the most direct and immediate effect on those at the bottom of the earnings hierarchy. It is also likely that such a policy would resonate well with the general public. For example, a 1989 ABC/Washington Post poll found that 82 percent of the American public -- known for its individualistic, anti-state attitudes -- supported a minimum wage increase even if the costs of this increase were passed on to consumers in the form of higher prices (Freeman, 1996: 641). Such findings do not confirm support for a dramatic increase in the minimum wage, but they do suggest an intuitive sympathy for low paid workers and hence for a just and favourable minimum wage policy.

Two considerations make the minimum wage especially attractive at this point in history. First, government has traditionally relied in large measure on public expenditures to achieve various social objectives, whether they entail alleviating poverty or ensuring access to education. In the present era, this option has become much less viable. The minimum wage represents an alternative, "market-based" approach to achieving such objectives, in the sense that it requires little if any government expenditure but instead operates through labour markets. Second, collective bargaining, which historically has been viewed as the primary market-based alternative through which workers are able improve their incomes, has proved of limited success in improving the pay levels of workers at the bottom of the income hierarchy. Although reforms to the Canadian system of labour relations could potentially change this, just how effective such

reforms would be is uncertain, and their adoption is in any case unlikely. Thus, although collective bargaining may (for a variety of reasons) represent an ideal market-based approach, increases to the minimum wage would at present appear to represent a much more viable one.

The question is whether such a policy can deliver. According to critics, a strengthening of the minimum wage is likely to suffer from the problem of negative economic consequences (especially for those it is intended to help). They also maintain that doing so would in any case represent an ineffective instrument for achieving social policy objectives. In addition to these arguments, there are a number of issues surrounding the design of minimum wage policy, issues that may have important implications for both its economic effects and its social effectiveness.

In this paper, I address each of these matters in turn, arguing that the main question should be not whether the minimum wage has negative economic effects or is of limited social effectiveness per se but rather what the standard for a just and favourable minimum wage should be and how such a wage may be designed so as to minimize any negative effects and maximize its effectiveness, subject to any trade-offs between the two. I thus move beyond debates over the effects and effectiveness of minimum wage increases to focus on alternative minimum wage standards and designs. To this end, I also draw on data from the Statistics Canada Labour Force Survey to explore the potential implications of different alternatives.

My main concern is with designing a minimum wage that is sufficient for *a single individual working full time, year round*. I proceed from the position that even a minimum wage meeting the criteria of "just and favourable" cannot in itself be a means for ensuring that dependents of low pay workers are supported or for remedying problems of under-employment from which these workers may suffer. These problems should be addressed not through minimum wage policy, but rather through programs and policies that complement this policy.

Part II

The Economic Consequences of a Just and Favourable Minimum Wage

Minimum wage opponents have typically invoked orthodox economic theory to argue not only that minimum wage increases have negative economic effects, but that these effects are most likely to affect low income workers, possibly leaving these workers even worse off than before. In this section, I first address concerns raised as to these effects and the research pertaining to these concerns. I then discuss some limitations to the literature surrounding them.

A. Concerns About the Minimum Wage

Concerns can or have been raised about the effects of minimum wage increases on: (1) employment, (2) prices, (3) employer outcomes, (4) investment, and (5) government budgets. I address these in turn.

Employment Effects. Employment effects have received by far the greatest attention. According to opponents, minimum wage increases make it more expensive for employers to hire labour, with the result that they hire less. Thus, these increases should have disemployment effects. However, there is now an extensive body of U.S. research (see, e.g., Bernstein, 2000) suggesting that moderate increases in the minimum wage have no negative effect on overall employment levels. Some studies (e.g., Katz and Krueger, 1992; Card and Krueger, 1994, 1995, 2000) have found that minimum wage increases may even have a positive effect on employment levels.[1] Moreover, while there is some evidence that teen employment is negatively affected, this finding is not universal (e.g., see Card and Krueger, 1995), and most studies suggest that

[1] Card and Krueger suggest that this is because employers are unable to hire an additional employee without raising the wages of all employees. Thus jobs may remain vacant. But if they are already paying employees a higher amount, then the cost of hiring the additional worker is smaller. Machin and Manning (1994) provide a somewhat more complex explanation, based on "modern monopsony models".

any such effect is likely to be small, resulting in at most a 3 percent decrease from a minimum wage increase of 10 percent (e.g., Neumark and Wascher, 1992). One U.S. study (Burkhauser, Couch, and Wittenberg, 2000) has estimated this to be somewhat higher (2 to 6 percent), though this study may suffer from methodological shortcomings (Bernstein, 2000: 69). Yet another U.S. study (Addison and Blackburn, 1999) found small negative effects on teenaged employment in the 1980s, but positive effects in the 1990s. This study also found positive effects for junior high drop-outs above the age of 24 in both the 1980s and 1990s, though these were especially strong for the latter. It found no effects for young adults (20-24 years of age).

The finding that minimum wage increases have at most small disemployment effects has been generally replicated in Canada. Using Canadian data, Baker et al (1999) find a 10 percent increase in the minimum wage to result in a decline in teen employment of 2.5 percent, although this decline is spread over a six year period. They find no statistically significant short term effect. Using the same specification as Baker et al, but data pertaining only to the four largest provinces (B.C., Alberta, Ontario, and Quebec), Michael Goldberg and David Green (1999) find that the largest effect of a 10 percent increase in the minimum wage is a 1.6 percent decrease in employment for females from 15 to 19 years old.[2]

One problem with both the Canadian and the U.S. research has been that the findings of this research may be sensitive to how regression equations are specified. An author's unconscious and conscious biases, coupled with those of journal reviewers, may thus influence the results that are obtained and ultimately published. In an attempt to address this, a recent analysis by David Neumark (2001) adheres to a "pre-specified research design" to assess the

[2] Though their paper is not published in a peer reviewed journal, even a paper by Sarlo (1999), written for the Fraser Institute to critique their recommendations, does not take issue with these results.

effects of increases in the U.S. federal minimum wage in 1996 and 1997. In other words, the specification was committed to before the data were available. He finds very little effect[3]. There were not even any statistically significant estimated effects for teenagers, except where these workers were also high school drop-outs. However, data limitations may have weakened the statistical significance levels of his results.

Although some may argue that *any* observed disemployment effects provide evidence against increasing the minimum wage, such an argument is difficult to make. The Baker et al study suggests that any such effects are likely to occur only over the long run, so they are unlikely to cause any immediate dislocation. Moreover, because they tend to be concentrated among teens of high school age, the likely effect would be a slight decline in labour force participation rates rather than an increase in unemployment. This need not be bad thing. If, as the Neumark study suggests, high school drop-outs are hardest hit (in Canada, they represent a third of all minimum wage earners; Fortin and Lemieux, 2000: 227), these workers would have less inducement to quit school, and more inducement to either return or enter a training program of some form[4]. Otherwise, it is these workers that are at the greatest risk of a lifetime of precarious employment and poverty. A higher minimum, coupled with a slight decline in employment, may also mean that even those still in school might find themselves with more time and energy with which to concentrate on their studies. Finally, as Freeman (2000: 9) points out,

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[3] Reinforcing these findings are the results of a survey of 560 small businesses (under 500 employees) in the U.S.. Only one third of one percent of respondents indicated that they reduced their employment after the U.S. minimum was increased to $5.15 in 1998, and fewer than 3 percent indicated that they might have to do so if there was a further increase, to $6.00 (Levin-Waldman, 2000: 725).

[4] This effect might be partly offset by the higher minimum. In either case, much would depend on whether youth workers received a sub-minimum, as discussed below. The point being made here, however, is that disemployment effects for these workers, were they to occur, might not be a bad thing.

low pay jobs tend to have high turnover rates[5], so even without a decline in participation rates, the likely effect would be a slight increase in the length of time to find work rather than chronic unemployment. U.S. research also finds minimum wage increases to be associated with increased average earnings among both teenagers and junior high dropouts, both of whom are considered most susceptible to disemployment effects (e.g., Addison and Blackburn, 1999: 405).

Price Effects. Opponents of the minimum wage sometimes argue that price increases are not only likely to occur, but that they are most likely to be felt by the low paid, who tend to purchase goods and services that are lower priced and hence more likely to be produced or sold by minimum or near minimum wage workers. Price increases are thus more likely to occur for these goods and services, potentially lessening or even negating any positive implications that a minimum wage increase might otherwise have. Thus, low pay workers may receive more pay when behind the counter, but find that, when in front of it, this pay does not go as far as before. This is especially likely to the extent that minimum wage increases have "ripple" or "knock on" effects, resulting in increases in pay throughout the income hierarchy due to employer attempts to maintain pay differentials.

There is, however, little evidence in support of this concern. Minimum wage increases do not appear to increase the overall cost-of-living, and although they may have some effect on prices levels in low pay sectors, these appear to be small and in some cases statistically insignificant (e.g., Katz and Krueger, 1992). Indeed, even if minimum wage increases were completely passed through to the consumer, the effects would likely be small. For example, Card and Krueger (1995) calculated that a 15 percent increase in the minimum wage would increase prices in New Jersey restaurants by, at most, only 2.2 percent, because labour

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[5] In the late 1980s, Brown estimated this to be 12.5 percent per month in the U.S. (1988: 134-35).

represented only 30 percent of total costs, and only about a half of all workers were within 15 percent of the minimum wage at the time. Lee and O'Roark (2000) attempted to establish the actual effects of a minimum wage increase on the prices of food and kindred products in the U.S.. They found that a $0.50 increase in the minimum wage increased prices by only 1 percent or less for the products they studied. There is some evidence that ripple effects occur, but these effects tend to be limited to the bottom half of the income distribution (Low Pay Commission, 2000: 21-24) and it does not appear that employers attempt to fully restore wage differentials. Although these effects may be reflected in higher prices, there is little reason to think that they matter (Card and Krueger, 1994).

Finally, it is not clear whether any inflationary effects should matter -- especially if they are small. This is especially so if minimum wage workers are already underpaid due to a lack of bargaining power in the labour market (see below), and hence are in effect subsidizing employers and ultimately consumers. If so, any resulting increases in consumer prices would simply restore "fairness" to wage and price structures.

Employer Effects. A further concern has been the effects of minimum wage increases on employers. This could be especially important if low pay jobs tend to be concentrated in smaller, owner-managed firms in highly competitive markets[6]. Many of these employers may be economically marginal prior to any increase, with their owners barely making a living wage themselves. A minimum wage increase might thus have substantial and possibly catastrophic consequences for these owners, pushing them into bankruptcy or reducing them to poverty level earnings.

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[6] Although this is a common perception, much depends on what one means by "small" employer. For example, as of the early 1990s, only 35 percent of minimum wage jobs in the U.S. were in workplaces with fewer than 25 employees (Card and Krueger, 1995: 315).

This concern also does not appear to be borne out by the evidence. There does appear to be some U.S. and U.K. evidence that minimum wage increases do reduce profitability, but such reductions appear to be small (Card and Krueger, 1995: 313-354; Low Pay Commission, 2000: 24-26). In addition, the available evidence suggests that, at least in the U.S., there is no increase in business failure rates in the years following a minimum wage increase (Waltman et al., 1998). Finally, if this problem was widespread, we could expect it to show up in disemployment effects. But these effects appear to be minimal, especially in the short run, which is when we would expect to observe business failures.

Investment Effects. There is also reason to be concerned that, in an era of increased cross-border competition, any substantial increase in minimum wage could induce employers to shift investment to other jurisdictions. One U.S. study (Partridge and Partridge, 1999) suggests some support for this possibility, finding a decline in employment in U.S. states after they raise the minimum and attributing this to a shift in investment. But this decline is estimated to be one percent or less. One reason may be that a large majority of minimum or near minimum wage jobs (in Manitoba, nearly 70 percent) are in retail, accommodation, or food services, which are generally not mobile. Manufacturing, which is the most mobile, accounts for only a small portion (6 percent in Manitoba) of all such jobs. But even in this sector, there is little reason to fear that even a substantial minimum wage increase would by itself result in a shift in investment, at least to the U.S., as the minimum wage in the U.S. is currently $5.15, or 7.92 Canadian dollars.

The case can also be made that, if an employer is unable or unwilling to pay the majority of his workers a just and favourable wage, his decision not to invest, or, indeed, to declare bankruptcy, is not necessarily a bad thing. Even if a lower pay level reflects the true marginal

product of the employees involved, to support jobs in which the marginal product falls below the just and favourable standard is arguably to encourage an inefficient and undesirable use of labour. Ideally, a higher minimum wage can induce employers to treat their employees as more valued resources and hence to use them more effectively, a possibility returned to below.

Budgetary Effects. A just and favourable minimum wage may also increase government spending if it means increased pay for workers within the public sector or employed by government suppliers or contractors. However, "living wage" experiments in the U.S. suggest any such effects to be small. Moreover, preliminary estimates by the British Low Pay Commission suggest a slight increase in government revenues due to increased tax revenues in that country (2000: 35-37). Whether such revenues can be expected in Manitoba would likely depend on the design of the minimum wage and how it was complemented by government taxation and assistance policies.

B. Limitations to the Economic Effects Literature.

Although the literature suggests that minimum wage increases have few if any negative economic effects, this literature suffers from a number of possible limitations. Here, I address four such limitations, each of which may be of particular relevance to any decision to establish a just and favourable minimum wage. These include: (1) a limited range over which research results apply, (2) an assumption of universal and predetermined effects, (3) a failure to adequately consider how employers adjust, and (4) a failure to address the potential implications of complementary institutions and policies.

Limited Range. The current North American research is limited primarily to analysis of the implications of a limited increase, usually of around 10 percent. Yet by most standards, a 10 percent increase over current levels would not meet the criterion of "just and favourable" pay

(see below). There is some evidence that substantially greater increases may not have significant negative consequences. For example, Rama (2001) found that a doubling of the minimum wage in Indonesia had little negative effect, and recent experience with the new minimum wage in Britain also suggests little negative effect. But whether these results are readily generalizable is uncertain.

A related problem is that most of the research is limited to jurisdictions where the minimum wage tends to be low and hence workers at or within 10 percent of this wage tend to comprise only a small percentage of the labour force (in Manitoba, for example, the figure is 7.3 percent). Thus, although it suggests that economic theory may grossly over-estimate the effects of minimum wage increases in general, it provides us with little indication as to what the effects would be of an increase substantially greater than 10 percent, or of an increase to a minimum wage that was already high, thus affecting a larger percentage of workers[7]. The critical issue in this regard may not be the magnitude of any increase, but rather the proportion of the labour force affected and the average increase affected workers will qualify for.

Also important may be the characteristics of workers that are likely to be most affected, particularly how vulnerable these workers are to disemployment effects and the sorts of alternative opportunities they have, in the labour market or otherwise. It is possible in this regard that, as the minimum wage increases, it begins to "scoop up" different categories of

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[7] A few attempts have been made to predict the employment effects of a larger increase. The analysis most referred to is by Shannon and Beach (1995: 298-9), who estimated in the mid-1990s that a proposal to increase the Ontario minimum wage to 60 percent of the average industrial wage, at the time a 23.3 percent increase, would result in an overall employment decline of from 1.2 to 1.5 percent. But they do this by extrapolating the findings of a 1980 study using U.S. data, which is not only now dated, but also methodologically flawed. We do not know how the demand for labour changes at these higher levels of increase, and it is inappropriate to assume the same effects as for lower levels of increase. As for similar studies, their estimate can at best be viewed as an application (or misapplication) of prior research rather than a contribution to this research.

workers, and that the vulnerability and opportunities of these workers differ from those of the initially affected.

The Assumption of Universalism. There has been a tendency to assume the effects of a minimum wage increase to be universal and predetermined. Yet much may depend on how a minimum wage increase is implemented. One would expect a one-time increase, with no warning to employers, to result in significant dislocations, especially if it pushed more marginal employers out of business or resulted in sudden price increases that consumers were unwilling to accept. In contrast, gradual increases, with substantial notice periods, could enable employers and consumers to adjust, substantially lessening any negative effects.

Much may also depend on how minimum wage laws are designed. For example, the economic effects of a minimum wage increase are likely to be softened to the extent that there are various exemptions or differentials. The former can, for example, apply for agricultural and domestic workers, as is currently the case in a number of jurisdictions. The latter can apply for tipped employees, for newly hired employees, or for non-adults (below 18 years of age). It may also be plausible to allow time-limited exemptions to specific workplaces if, for example, employees freely agree to such an exemption and have been properly represented in determining whether it is needed (Freeman, 1996: 647).

The use of such exemptions raises a number of issues, to be addressed more fully below. At present, the point is that these exemptions do not appear to have received much attention, even though they can have major implications for the proportion of the labour force and the categories of workers affected. There is also some evidence that they matter. For example, Neumark and Wascher (1992: 77) estimate that the sub-minimum wage for teens in the U.S. lowered the negative employment effects of a minimum wage increase by about 35 percent. It

is thus possible that research focusing on the implications of a general increase in the minimum wage may be misleading, because it provides little information as to the implications of alternative minimum wage designs.

How Employers Adjust. Complementing these first two limitations has been a lack of adequate understanding as to how employers adjust to minimum wage increases. Under orthodox economic theory, one possibility is that, rather than resort to layoffs or to hiring fewer workers, employers may simply cut the hours of those already hired. Thus, there are disemployment effects, but these are not reflected in the employment statistics. At least one study suggests that this could be the case (Neumark and Wascher, 2000: 1382), though the findings of this study have been called into question (Card and Krueger, 2000: 1398). It is not in any case clear why employers would cut hours worked rather than the number employed; one would expect that the costs of hiring and training employees would serve as a disincentive to doing so.

Another possibility is that employers substitute capital for labour. The finding that disemployment effects tend occur over a lengthy period of time can be seen as providing some support for this possibility, because the adoption of new or more capital intensive technologies tends to gradual. But the limited disemployment effects observed over even the long run suggest that any such substitution is limited (unless it is realized through fewer hours). A survey by the British Low Pay Commission (2000: 28) did find that a third of employers had increased the use of technology in response to the introduction of Britain's new minimum wage in 1999, but that only one in ten had done so "significantly". Moreover, whether this can be seen as "good" or "bad" depends on whether such adjustment eliminates "bad" (e.g., low skill) jobs and creates "good" (e.g., high skill) ones in their place. This needs to be explored in further research. However, it is likely that there is substantial variation by sector, reflecting differences in the

ease with which capital may be substituted for labour (Wimmer, 2000).

There is yet another possibility, one that is generally not envisioned by orthodox economic theory but appears to be an objective of the new minimum wage program in Britain (Eiroline, 2000a: 4). Employers may adapt to a higher minimum wage by attempting to enhance efficiency levels or quality, either through the elimination of waste, or through improved training, or through changed organization of work. In the British Low Pay Commission survey referred to above, for example, six in ten employers reported that they had changed work organization, a third that they had increased training, and a third that they had improved quality (Low Pay Commission, 2000: 28). However, only three in ten, one in twelve, and one in twenty, respectively, reported doing so "significantly." Two thirds also stated that they had tightened control over labour costs, with a third reporting that they did so "significantly." As might be expected, subsequent work by Edwards et al (2000) finds that, among small firms, the method of adaptation has varied by sector and that much may depend on the level of expertise and assistance available to employers in deciding how to adjust.

Complementary Institutions and Policies. The final, related limitation has been a general failure in the literature to consider how institutional arrangements and public policies condition the implications of minimum wage increases. Part of the reason is that this literature has focused primarily on liberal market economies such as the Canada and the U.S. rather than on the more "institutional," "high pay, high skill, high quality" economies found in northern Europe (e.g., Germany, the Netherlands, Sweden). It is generally understood that, in these economies, there exist a number of institutions that enable employers to recoup higher wage levels through higher training levels and quality (e.g., see Streeck, 1997). Of particular note are:

(1) active labour market policies for unemployed workers, thereby cushioning the impact

of displacement,

(2) extensive co-decision rights for employees, placing pressure on employers to adopt the "high" rather than "low" road when introducing change,

(3) extensive training programs for workers prior to and during labour market entry, thus ensuring high quality labour, and

(4) stronger employer organizations and/or government programs with the capacity to provide knowledge and expertise to employers.

Because the overwhelming majority of workers in these economies is covered by a collective agreement, minimum wage laws play only a limited role at best. But one could expect the effects of an increase in minimum wage, and in particular employer adjustments to it, to be substantially different to the extent that these or similar arrangements are in place.

Conclusions

The finding that minimum wage increases typically have only small (if any) economic effects suggests that orthodox economic theory may over-estimate the likely effects of increases in the minimum wage. However, limitations to the literature mean that it is not possible to draw definite conclusions as to what the effects of any substantial (i.e., above 10%) increase in the minimum wage will be. Much may depend on the level at which the minimum wage is set, how it is implemented and designed, and whether it is supported by the appropriate institutions and policies.

Part III

The Social Effectiveness of the Minimum Wage

The social effectiveness of increasing the minimum wage depends on the extent to which it can be seen to achieve social policy objectives and to represent a more effective means of achieving these objectives than alternative policies. In this section, each of these issues is considered in turn.

A. Social Policy Outcomes

The effectiveness of the minimum wage as a social policy instrument can be evaluated against four objectives: (1) poverty reduction, (2) inequality reduction, (3) ensuring just or fair pay, and (4) ensuring favourable pay. While the first and second of these have tended to receive the greatest attention and are undoubtedly important, they may be viewed as indirect or secondary effects of the minimum wage, largely contingent on the extent to which workers receive or are able to receive just and favourable pay. As argued below, they should thus be considered as subsidiary to these latter objectives.

Poverty. It is commonly argued that, even if minimum wage increases may not have the negative effects posited under economic theory, they represent a "blunt instrument" for achieving social policy objectives, especially poverty reduction (e.g., Burkhauser and Harrison, 2000; Freeman, 1996: 643). Critics point out that minimum and near minimum wage earners (i.e., those within 10 percent of the minimum) tend to be teenagers (5 in 10 in Manitoba), to live with parents (close to 6 in 10 in Manitoba), to be students (close to half in Manitoba), and to be secondary wage earners (3 out of 4 in Manitoba). Only a minority (1 in 4 in Manitoba) is the head of a household. In addition, a high percentage are unlikely to be in "poor" households: only 1 in 5 minimum wage earners in Canada was in the lowest family income decile as of 1993, and

only 1 in 3 was in the lowest quartile (Goldberg and Green (1999). For those who are in such households, minimum wages represent a small percentage of total income, because these individuals tend not to work full time and rely largely on social assistance. As of 1993, minimum wage earnings accounted for less than 10 percent of income in families in the bottom quintile of the income distribution (Fortin and Lemieux, 2000). Finally, much of the concern about poverty centres around children. Yet a minimum wage that lifts single individuals out of poverty is unlikely to do the same for individuals with one or more dependents. Thus, increasing the minimum wage would not be effective in reducing child poverty.

This evidence should not, however, lead one to conclude that the minimum wage can have no effect on poverty. Using U.S. data, Addison and Blackburn (1999) find that a ten percent increase in the minimum wage is associated with a statistically significant five percent reduction in poverty rates for both teenagers and junior high dropouts (but not for young adults). Moreover, it may be possible to address some of the problems identified under the blunt instrument argument by targeting the minimum wage. Providing a lower minimum wage to various groups of workers, as discussed earlier, could be effective not only in reducing the economic effects of minimum wage increases, it could substantially increase the efficiency of the minimum wage as a means of reducing poverty. A problem is that some percentage of workers in these categories would also live in households below the poverty level, but there may be ways to address this problem through complementary government programs.

A more important problem has been the tendency of blunt instrument theorists to assume that only those at the very bottom of the income hierarchy experience economic hardship. Yet families that are above the poverty level (however defined) but fall within the bottom third or even half of the income distribution are often financially stressed and under-privileged, unable

to enjoy many of the benefits associated with Canadian society, including home ownership, post-secondary education for their children, attendance at sporting and cultural events, and other advantages taken-for-granted by the majority of Canadians. These families may thus be thought of as impoverished in a *relative* sense. It is they who have suffered most from the lack of progress over the past two decades, and it is perhaps the effects of minimum wage increases on these families with which policy makers should be most concerned.

The available research indicates that these families would benefit disproportionately from a higher minimum wage: as of 1993, two thirds of all minimum wage earners in Canada were in families in the bottom half of the income distribution (Fortin and Lemieux, 2000: 229). In the U.S., Bernstein and Schmitt (2001) find that the bottom fifth of households would receive 43.7% of the gain from a one dollar increase in the minimum wage, which would be almost six times their share of income prior to such an increase. The bottom two fifths would receive 62.8 percent, which would be three times their share of income. The British Low Pay Commission reports that, of individuals in working-age and employed households, those in the bottom 3 deciles received 60 percent of the gains from Britain's new minimum wage (2001b: 51).

Regardless of how "efficient" the minimum wage is in this respect, increasing the minimum wage could provide a much welcomed income boost for lower income families. Unless the case can be made that this wage would substantially harm the economy, this gain alone may provide justification for substantially increasing the minimum wage. Of note, there is substantial evidence (as reviewed by the Office of the Chief Medical Officer of Health, 2001) to suggest that lower income families have significantly greater health problems than do those in their higher income counterparts -- evidence that, on the surface at least, suggests that these families do indeed suffer from economic deprivation.

None of this necessarily refutes the blunt instrument thesis. It does suggest, however, that even if the minimum wage is an inherently inefficient tool for addressing poverty, it is by no means entirely an ineffective one. The problem is not just that the minimum wage can only be one of a number of tools which, in combination, may be expected to reduce poverty, but also that it is almost inherently targeted at *individual* rather than family earnings. Thus, while it can ensure that individuals are able to earn wages that are above the poverty level, it cannot be expected to ensure that families are able to do so. More important, the extent to which it does is largely an indirect effect, dependent on the extent to which the objectives of "just" and "favourable" pay are achieved. Because of this, and because the minimum wage appears to have a limited effect on poverty, poverty reduction should be viewed as a secondary objective of minimum wage policy (albeit an important one).

Inequality. The blunt instrument thesis has also been advanced with respect to inequality. It is argued that, because a large portion of minimum wage earners are either teenagers or secondary wage earners living in middle or even upper income households, raising the minimum wage benefits these households as well as their lower income counterparts. This argument does not mean that there is *no* reduction in inequality. Even if the gains were evenly distributed, there would be some reduction in equality, because the incomes of lower income households would increase by the same absolute amount as those of higher income households, and hence by a higher relative amount. Moreover, the evidence cited above indicates that lower income households do disproportionately benefit. So although the minimum wage might still be judged to be a blunt instrument for reducing household inequality, it nonetheless does have an effect.

The most evident effect of minimum wage increases is, however, on individual earnings inequality (Fortin and Lemieux, 2000: 222-23; Low Pay Commission, 2000: 18-19). In Canada

(as elsewhere) earnings inequality has increased over the past few decades, largely because of declines in the wages of men with low skill levels and of young (under 35) workers, all of whom have a higher likelihood than most (with the exception of women) of being in low paid jobs (Picot, 1998). There is also evidence that increased inequality in both the U.S. and U.K. during the 1980s and early 1990s is in considerable measure attributable to declines in the minimum wage and that, by raising the pay of these workers, increasing the minimum wage can help to reverse this trend.[8] As noted earlier, ripple effects, though limited, mean that the benefits of minimum wage increases extend beyond those who are directly affected to others in the bottom half of the wage hierarchy. It is also notable that the median hourly pay of part-time workers in Canada is only 54 percent that of full time workers, the second lowest of eleven countries considered in a recent OECD report (the average was 73.4 percent)(Evans et al, 2001). This likely reflects Canada's low minimum wage levels.

Increases in the minimum wage may also have important implications for reducing gender inequality. A majority (in Manitoba, three in five) of low pay workers are women. There may be a number of reasons for this. But it generally means that a low minimum wage reinforces gender inequality. Thus, the reduction of the gender pay gap may be seen as an important policy objective for the minimum wage. Although research in this area has been limited, Dex et al (2000) estimated that, in the U.K., the new minimum wage of 3.60 pounds (equivalent to about $7.90 in Canada) introduced in 1999 would improve the gender pay ratio and help women at the

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[8] Fortin and Lemieux (1997) estimate that declines in the real minimum wage account for about 30 percent of the increased earnings inequality in the U.S. during the 1980s. Machin and Manning (1994) also find this to be the case in the UK, where wages councils were steadily weakened and then eradicated altogether. Gosling and Lemieux (2001) also find that minimum wage policies in the U.S. and U.K. explain a convergence in patterns of inequality between these two countries, and that the introduction of the new minimum wage in Britain has lowered inequality among women.

lower end of the pay spectrum. Consistent with this estimate, there was a drop of one percentage point in the male-female earnings differential in the one year period after the introduction of this wage, the largest drop in almost a decade (Low Pay Commission, 2000: 17).[9]

It can therefore be concluded that, even if the minimum wage is a blunt instrument for reducing inequality between households, it can have important implications for reducing individual and gender inequality. In this regard, the blunt instrument thesis once again assigns an unfair burden to the minimum wage. The minimum wage can be a useful tool for helping to reduce inequality in family incomes, but because it is targeted at *individual* rather than family earnings, it fares much better as an instrument for reducing individual earnings inequality. As for the reduction of poverty, even this may in any case be considered a secondary objective, for it is largely contingent on the extent to which the remaining two objectives of just pay and favourable pay are achieved.

Just Pay. The initial justification for the minimum wage was not to address poverty or inequality, but rather to protect women from market exploitation. This justification may be extended to labour force participants in general. It is difficult to establish the extent to which minimum or near minimum wage workers are paid below the value of their marginal product. But these workers tend to experience relatively high levels of unemployment and compete for jobs that require low skill levels and minimal employer training, where they are readily replaced. This means that they typically have very little bargaining power either in the labour market or once in an employment relation. In other words, the conditions assumed by economic orthodoxy

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[9] Although these findings may not generalize directly to Canada, it is noteworthy that the proportion of workers affected, and the percent of these workers that are female, have been roughly the same as would be the case if the minimum wage was raised by 10 percent in Manitoba.

are often not met for these workers, especially in periods of high unemployment[10]. This places them in a position where they may be forced to sell their labour for substantially less than its value.

Economic theory also suggests that, if these workers were paid in accordance with their marginal revenue product, increases in the minimum wage would price them out of the market. Yet the finding of small disemployment effects suggests that low pay workers may indeed be underpaid. Indeed, it would appear that the deterioration in the wages of less skilled workers in recent years reflects a weakening of their bargaining power in their labour market, with free trade resulting in a reduction in lower skilled blue-collar work (see Trefler, 1999) and hence a surplus of lower skilled workers in the labour market.

The case may also be made that, when labour is cheap, employers are more likely to waste it, so that, even if workers are being paid in accordance with their marginal revenue product, this product is below what it could be. Thus, increases in the minimum wage may play an important role in ensuring not only that those lacking in bargaining power are able to achieve a wage that reflects the value of their labour but also that their marginal product is high enough to justify such a wage. In this regard, we may think of a just minimum wage as one that ensures that workers are paid in accordance not only with their marginal product, but also with the potential productive value of their labour, thus providing employers with an incentive to ensure that this potential is realized (e.g., through better training).

Favourable Pay. If individuals participate in work on a full time basis, they should be able to

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[10] Employers may for various reasons pay them above the minimum wage, because some of these workers may be "better" than others, and there are undoubtedly some hiring and training costs. "Efficiency wage theory," which has become popular in economics, also suggests that higher wages may create "good will" that is reciprocated by better performance.

participate in society as well. The basic objective of minimum wage policy, therefore, should be to ensure that individuals do not only earn just pay, sufficient to compensate them for the value of their labour, but that they are also able to earn favourable pay, sufficient for them to participate at some minimal level as members of society. Under the "blunt instrument" thesis, the assumption seems to be that this does not matter if a worker is a secondary wage earner, whether it be as a spouse, a student, or a young full-time worker living at home. Yet it is not clear either why the work of these individuals should be devalued or why they should not be able to earn enough to attain self-sufficiency. In this respect, the issue is not so much whether individuals live in poverty, but whether they are able to earn enough that they can achieve economic independence if they so choose.

This criticism seems especially applicable for married women, who represent close to 15 percent of minimum or near minimum wage earners in Manitoba. To suggest that the pay of these women does not matter is reminiscent of the traditional belief that women work largely to earn "pin money," used to purchase "the little extras." In reality, a majority of married women earning at or near the minimum wage live in households that fall in the bottom half of the income hierarchy. That these women tend to be secondary earners tells us more about gender biases than about need. But even exclusive of need, low pay conveys a sense of lower worth, one that reinforces gender biases. It can also entrap women in relations of economic dependency, with implications for spousal relations and ultimately gender relations throughout society. Of particular concern are women in abusive or exploitive relationships who find themselves able to leave only at the risk of poverty. Matters are worsened if children are involved, because although a higher minimum wage cannot be expected to cover child support costs, knowledge that one cannot even earn enough to support one's self is likely to substantially dampen any

thought of separation -- regardless of the prospects for child support or social assistance. LFS data indicate that half of all married women earning at or near the minimum wage in Manitoba have at least one child under the age of 18, and so may find themselves in this circumstance[11].

A similar argument may be made for young adults (i.e., those 18 to 25 years of age) and post-secondary students. There is no obvious a priori reason that these workers should be any less entitled to decent pay than anyone else. While many live in middle and upper income households, they may be doing so because they are unable to afford to do otherwise (Card and Lemieux, 2000) and as such are effectively trapped. In poorer households, these workers may be discouraged from pursuing a post-secondary education because they have little parental assistance and are fearful of accumulating an unmanageable debt load. This is especially of concern given that post-secondary students have substantially greater financial need than do most young adults (Social Planning Council of Winnipeg and Winnipeg Harvest, 2001). Not only do they have to cope with high tuition costs, many may live away from their parental home for most or all of the year (even if they may maintain their parental address), in which case statistics showing that many minimum wage earners are students living with their parents may be grossly misleading. LFS data indicate that a third of employed post-secondary students in Manitoba earned $6.50 or less as of 2000. Half earned $7.50 or less.

The one exception, where it can be argued that the blunt instrument argument does apply, is for non-adults (i.e., those under 18 years of age). Because they must live with a parent or guardian by law, the self-sufficiency argument is less compelling. This is important, because these workers represent a sizeable percentage (in Manitoba, roughly 3 in 10) of minimum or

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[11] As of 1994, 10 percent of women in minimum wage jobs were single parents (Fortin and Lemieux, 2000: 226).

near minimum wage earners and hence their inclusion may substantially reduce the efficiency of minimum wage increases. Yet, the simple alternative, as suggested above, is to establish a lower minimum wage for these workers.

B. Alternatives to a Just and Favourable Minimum Wage.

There are a number of possible policy alternatives to the minimum wage. In particular, opponents of minimum wage increases argue that alternative tax policies, such as increased income tax exemptions and tax credit programs, may be more effective. It is also arguable that some sort of sectoral arrangement may be more effective. I consider these alternatives in turn.

Income Tax Exemptions. Increased personal income tax exemptions are advocated on the grounds that they enable low income workers to keep more of their earnings. There are, however, two problems with this alternative. First, the benefits of an increased exemption would go equally to all labour market participants paying income tax, including those at the upper end of the income distribution. Second, it is not likely that an increased personal exemption would substantially improve after-tax income for most low paid workers, because most already pay little if any provincial income tax, especially if they have dependents. Thus, for example, to increase the current personal exemption from its current level of $7,412 to $8,500 would result in a $59 million reduction in tax revenues. Only 7.8% of this would go to tax filers with less than $15,000 income, and the benefit for low pay workers would work out to the equivalent of a $0.05 increase in the minimum wage. The figures for an increase to $9,500 would be, respectively, $111.4 million, 7.0%, and $0.10 (Greasley, 2001). Thus, it would represent an extremely blunt instrument, unless perhaps marginal tax rates were increased so as to neutralize any benefit to higher income earners.

Earned Income Tax Credits An earned income tax credit program would seem a more effective

alternative, because it only benefits those in need. Both the U.K. and the U.S. have adopted programs along these lines, and it would be useful to obtain information as to their design and effectiveness. However, while tax credits could represent a more effective way of reducing poverty, only a relatively small percentage of workers living below the poverty line work full-time, year round, as proponents of the blunt instrument thesis point out. It is possible that a tax credit program would provide an incentive to enter the labour force or to increase the number of hours worked, so that it would cover a higher percent of the poor. But even if a tax credit program might help to lift a significant portion of low pay workers out of poverty, it would not address the main objectives of minimum wage policy identified earlier.

Sectoral Minimums. Sectoral minimums are effectively established in some European countries, as most workers in these countries are covered by sectoral bargaining arrangements. This is also the case under the decree system in Quebec, although this system applies to only a limited number of sectors (Valee and Charest, 2000). But perhaps the most relevant example is the (now defunct) British wages council system, in which tripartite boards established the minimum wage for each sector. Manitoba already has separate boards for the construction industry, and the United Food and Commercial Workers have recently proposed that a separate board be established in the security sector, so that employers can pay higher wages and attract and train better quality workers (see Smith, 2000). Sectoral councils could be promoted in a number of other sectors as well.

The advantage of sectoral boards or councils is that minimum wages are in theory set in accordance with sectoral capacity to pay, thus minimizing any negative economic effects. This appears to be confirmed by British research finding that wages councils had no discernible effect on employment levels (Dickens et al, 1993; Machin and Manning, 1994; Dickens et al, 1999),

although there is some dispute as the extent to which these councils appreciably affected pay levels to begin with (Bell and Wright, 1996; Dickens et al, 1999: 11-12).

The main problem with sectoral boards or councils as an alternative is that it would still be necessary to establish a basic minimum below which wages generally could not go in order to ensure just and favourable remuneration for all adult workers (whether covered by a sectoral board or not). They therefore cannot be viewed as an effective alternative to the minimum wage. They may, however, be viewed as a possible complement to minimum wage policy.

C. Conclusions

It can be concluded that the minimum wage can help to reduce poverty and lessen inequality. However, these outcomes represent secondary consequences of the minimum wage. The primary purposes of the minimum wage, and the ones that should form the cornerstone of minimum wage policy, are to ensure that pay is just and that it is favourable. While the former entails ensuring that individuals are paid the potential productive value of their labour, the latter entails ensuring that they are able to attain economic independence and participate in society. It would also appear that, although there may be a number of alternatives to the minimum wage, these alternatives would be of little value for advancing the primary purposes identified here, and may even be less effective than minimum wage policy in achieving the two secondary objectives. However, they could serve to complement this policy, thus enhancing the extent to which these and related objectives may be served.

Part IV

Designing a Just and Favourable Minimum Wage

The analysis so far suggests a case for a just and favourable minimum wage, with the caveat that the economic effects and social effectiveness of such a law would depend on its design. There are four main design issues: (1) establishing a meaningful standard for such a wage, (2) determining whether and how differentials and exemptions should apply, (3) establishing complementary policies and programs, and (4) implementing, evaluating, and enforcing the new minimum wage. I address each of these issues below.

A. In Search of a Standard.

There would appear to be three main alternative approaches for establishing a just and favourable minimum wage: (1) to rely on an absolute standard, based on estimates of objective need, (2) to rely on a relative standard, based on general living standards, and (3) to have no fixed standard, relying on political judgement, on economic indicators, or on some combination of the two in order to determine the magnitude of any increases in the minimum wage over time.

An Absolute Standard. The standard often identified by advocates of an increased minimum wage in Canada is the Statistics Canada low income cut-off, or LICO, for a single individual. Though it contains a relative component, it is based on the proportion of total income the average household spends on food, clothing, and shelter for each of five different community population sizes (e.g., 35%). To compute the LICO, Statistics Canada adds 20 percent to this figure (e.g., 55%). It then establishes the income level at which the percentage of household income needed to spend the average amount on food, clothing, and shelter (e.g., $12,000) equals this latter figure (e.g., $21,818). The assumption is that a household falling below this level would have too little left for such things as transport, personal care, household supplies,

recreation, and health. As of 1999 (the date of data collection for the most recent release), the LICO for single individuals in communities of over 500,000 stood at $17,886 before taxes.

Most social policy groups in Canada have used LICO measures to establish poverty lines, a practice that has been criticized as setting an arbitrary and unduly high standard, especially because it contains a relative component. However, if the LICO is simply taken as a measure of low income, to be used as a standard for determining what constitutes just and favourable pay rather than poverty level pay, this criticism is to an extent muted, especially if poverty reduction is viewed as only a secondary objective of minimum wage policy. In other words, the question would become not whether a minimum wage set at the LICO addressed poverty per se, but rather the extent to which the LICO standard met the requirement of just and favourable remuneration, enabling full-time labour market participants to live and participate in their community with dignity.

A further problem with the LICO is that it does not allow for differences in the cost of living across cities in the same size category. For example, Winnipeg and Vancouver are in the same size category and hence have the same LICOs, even though Winnipeg has a substantially lower cost of living. There may be ways to address this problem. For example, the LICO might be adjusted to reflect differences in the cost-of-living between cities, taking that city with the "average" cost of living for a particular category as the reference point. Thus, if the cost of living was 10 percent lower in Winnipeg than in the average city within the same size category[12], the LICO and hence the minimum wage could be adjusted downward accordingly.

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[12] Based on Manitoba Dept. of Finance data tabled with the 2001 budget, the cost of living for a single individual earning $30,000 in Manitoba is 88.5% of the average for the ten Canadian provinces; CPI data indicate that the cost of living in Winnipeg is 92% of the average for cities with over 500,000 occupants.

Such a calculation would be imprecise[13], but for purposes of determining the minimum wage it might prove acceptable, especially because it would be based on an externally determined standard and hence less subject to controversy than otherwise.

A final problem with the LICO is that it is only released once per year, and there is a lag from the time of data collection of a year or more. Thus, as of August, 2001, the most recent release was based on 1999 data. It would therefore be necessary to adjust the LICO upward to allow for changes in the cost of living subsequent to the data collection period.

Another possibility, one that Statistics Canada, in conjunction with Human Resources Development Canada and with the provinces, has been developing as an alternative to the LICO, is a "market basket" approach. A market basket approach attempts to establish what the actual minimum costs of living are for a single individual or family, and as such is likely to be more precise than the LICO. Much, however, depends on what is to be included in this basket. For example, Chris Sarlo and the Fraser Institute define it very narrowly, to allow only for expenses necessary for long term physical well-being. They exclude all social comforts or amenities, such as newspapers or health services not covered by government. The result is a bare subsistence level, of $10,000 per year as of 2000.

It is likely that the Statistics Canada measure will be more realistic, but if it is set as a poverty standard to be used for social assistance programs (as appears to be the intent[14]) it may be criticized as insufficient as a standard for a just and favourable minimum wage, again because

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[13] A more precise alternative would be to compute the LICO for the city in question, using Statistics Canada expenditure data. But the sample size for smaller provinces (e.g., Manitoba) is not large enough, especially because the calculation would be for single individuals only.

[14] The proposed measure includes separate allotments for food, clothing, shelter, transportation, and "other." Though the first four are based on objective standards of basic need, the "other" category are based on the amount spent on this category by families in the 15th percentile (Statistics Canada?, 2001).

it would only address the objective of poverty reduction. It would also appear that it will measure the income needs of families rather than individuals (Statistics Canada, 2001). Finally, delays at arriving at this measure mean that it will not be available until some time in 2002.

It may be possible for individual provinces to arrive at their own market basket measure. In Manitoba, for example, the Social Planning Council of Winnipeg and Winnipeg Harvest (2001) has proposed what they label an Acceptable Living Level (A.L.L.), based on budgets arrived at through extensive consultation with a group of low income individuals. This standard suggests a level of $14,409 before tax for a single individual (see Appendix A), which is substantially below the LICO. However, this level includes $620.00 (before tax) for computer expenses, added on after the fact. Absent these expenses, it would be $13,702 (after tax). However, many would not consider what is, in effect, a bare poverty standard to be sufficient. For an individual to work full time, year round and still earn only enough to live at the poverty level cannot be considered to be receiving a just and favourable wage.

A Relative Standard. The main argument for a relative standard is that the ability of an individual (or family) to live and participate in her community with dignity depends on how her income compares to those of others. For example, it is common to define poverty as fifty percent of median income adjusted for family size (Ruggles, 1992: 19). Currently, both the OECD and Eurostat (the statistical agency of the European Commission) use this criterion (OECD, 2001; Forster, 1994: 9), and Statistics Canada uses it for its Low Income Measure (LIM), calculated as an alternative to the LICO (Human Resources Development Canada, 2001).

These standards have the advantage that they implicitly target inequality by defining poverty in relative terms. But as for the absolute standards, to set the minimum wage at the poverty level would not likely be viewed as consistent with the objectives of just and favourable

remuneration.

There have been attempts to establish a relative "low pay" standard above the poverty line. For example, the Council of Europe defines low pay as earnings below 68 percent of the adult full-time mean (see Dex et al, 1999: 507). In Canada, the labour movement has traditionally advocated a minimum wage level that is 60 percent of the average industrial hourly wage[15]. This is consistent with the recommendations of Senator Croll's 1968 Committee on Poverty and with the annual recommendations of the Manitoba Minimum Wage Board throughout the mid and late 1970s (Manitoba Department of Labour and Manpower, 1982). Of note, the Manitoba minimum appears to have come to within a few percentage points of this level in the mid-1970s, although a precise estimate is not possible due to data limitations (Manitoba Department of Labour and Manpower, 1982).

Though these standards would appear to come closer to establishing a just and favourable minimum wage standard, they do not appear to based on any concrete rationale and hence may be seen as arbitrary. Thus, there is not only likely to be difficulty arguing the case for a minimum wage policy based on such a standard, the specific standard selected is likely to be controversial. One possible solution would be to seek out some international convention in this regard. The Council of Europe standard could be of value here, although the support for this standard in Europe, and why it is set at 68 percent, requires further exploration. This standard also seems high, although one alternative would be to set it as an ideal to be achieved over the long term, gradually raising the minimum wage until this ideal was reached or it became

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[15] The use of an average rather than a median would also mean that a wage initially set at 60 percent would fall below this level once implemented (because its implementation would raise the average). This could either be taken into account in the initial calculation or by a series of (progressively smaller) subsequent increases until an equilibrium was reached.

apparent that further increases would likely have serious negative economic effects. Yet a similar approach could also be attempted with an adjusted version of the LICO, which does not appear to be as arbitrary as the Council of Europe standard.

No Fixed Standard. Rather than adopt a fixed standard, the level at which a just and favourable minimum wage is deemed to have been reached could be left to the judgement of public officials. But once set, there would need to be a system in place for subsequent increases. One option would be to leave subsequent increases entirely up to public officials as well, based perhaps on recommendations from a board (as is now the case in Manitoba). However, there appears to be a general consensus that this process leaves the minimum wage too vulnerable to the political winds of the day.

The main alternative is to establish a fixed criterion with which to regularly adjust the minimum wage over time. This may be seen by some business groups (e.g., Chamber of Commerce) as too rigid, and virtually any criterion selected is likely to meet with such a criticism. For example, the most obvious such criterion, the CPI, is likely to run up against the sorts of criticisms that employers have raised against COLA clauses in collective agreements (e.g., that the CPI does not reflect cost or price changes in particular sectors and hence the ability of employers in these sectors to pay it). It may, however, be possible to partly address this problem by using a formula with more than one criterion, as, for example, has been the case in France (Bazen, 2000)[16].

This alternative could also be blended with the use of a fixed standard. That is, a fixed

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[16] On July 1 of each year, the French minimum wage is uprated to reflect increases in the CPI, but must at minimum ensure a year-on-year increase that is at least half of the increase in the real average earnings of manual workers. Interim adjustments (during the year) are made if the CPI has increased by 2 percent or more.

standard could be set as a target to be striven for over the long term. The minimum wage could then be gradually increased, based on preset criteria until this ideal was achieved. For example, the minimum wage could be increased by the same amount as increases in the average industrial wage (e.g., a one to one ratio) until the fixed standard was achieved. Subsequent increases would then be tied to increases in this standard. This would have the particular advantage of ensuring that the absolute gap between the minimum and the average did not increase over time, at least until the standard was achieved.

A further option is to leave adjustments to the discretion of a review board or government official, but to require them to be made at specified intervals in time and based on one or more criteria. For this option to be effective much would depend on whether there were firm criteria and a formula of some kind, so that a failure to raise the minimum accordingly would be clearly seen as such and hence would likely have political implications. If there were not firm criteria and a formula, it is likely that the criteria would become virtually meaningless, so that this option would effectively differ little from the first option (i.e., political discretion only). Again, the French system may be of some interest, because it allows for discretionary increases over and above (though not below) those required under the formula noted above (Bazen, 2000: 14). Of similar interest is the system in the Netherlands, which allows minimum wage adjustments to be forgone if the ratio of people claiming social benefits (e.g., unemployment, welfare) to those employed exceeds 82.6 percent. Although this criterion reflects circumstances unique to the Netherlands, it may be possible to adopt a different criterion or set thereof for Manitoba.

A further strategy may be to establish a minimum standard for the short term and a higher, more munificent target for the long term. Adjustments might then be made gradually, increasing the minimum wage at the same rate as increases in the median wage until the adjusted

LICO was achieved, provided that certain economic criteria were met. Where these criteria were not met, any adjustment could be withheld, pending the decision of government officials. Public officials could, of course, also decide to alter this system if it proved to have negative economic effects. In this regard, careful monitoring of the effects of ongoing increases would be essential, and the Minimum Wage Board would play an important role in gathering information and advising the government.

B. Targeting the Minimum Wage: Differentials and Exemptions

As discussed earlier, there are two possible reasons for targeting the minimum wage. First, doing so may reduce any economic (and possibly political) effects, thus allowing for a higher general standard. Second, it may enhance the effectiveness of the minimum wage as a social policy instrument. Three alternatives can be considered: (1) a lower minimum wage for employees earning tips, (2) some form of informal "training" differential based on age or length of employment, (3) exemptions by occupation, sector, or firm.

Tip Differentials. A lower minimum for tipped employees would be difficult to justify if it meant either a decline in the income of these employees or a circumstance under which some of these employees earned less than the general minimum. The former can be avoided by leaving tipped employees at the current minimum and ensuring that this minimum is adjusted over time in parallel with changes in the general minimum. With respect to the latter, it might be possible to implement a system where employees sign a statement after each pay cheque, confirming that they have earned the equivalent of the general minimum or higher, as is the case in the U.S.. Alternatively, the exemption could be limited to alcohol servers, on the grounds that these employees tend to receive substantial tips and hence that there ability to clear the general minimum would not be in doubt. This is the practice in Ontario. A further alternative is the

British system, under which employees may keep tips received directly from customers, but money collected centrally and distributed through the payroll is allowable against the minimum wage. It may for example be possible to require credit card tips to be given to employees through their weekly pay cheques and that these tips plus their hourly wage exceeded the general minimum. The practicality and effectiveness of these and other possible systems would, however, need to be carefully appraised before they could be considered real alternatives (see below).

An alternative to a tip differential, one that could be investigated with employers, could be for employers to establish a service charge as an alternative to tipping, as they do in some European countries. Opposition to this possibility would raise the question of whether, indeed, the tip serves a possible function for employers and if so, whether employees should be made to in effect subsidize this. Nonetheless, a tipping exemption could soften the effects of (and resistance to) increases in the minimum wage, especially in food preparation and service occupations, which account for one in five minimum or near minimum wage earners in Manitoba.

Yet a further alternative would be to establish a separate wages council for the restaurant and food services sector, and allow this council to establish a policy on tip differentials. This is the main sector in which tips matter, and it is unique from other sectors in an number of important respects. It might be possible in this sector, for example, to establish a higher minimum wage than in other sectors, but at the same time allowing a tipping differential.

A final alternative is to treat tips in the same way as commissions under the law. Presently, commissioned employees must be guaranteed that their commissions equal or exceed the minimum wage, yet need not be paid a fixed hourly wage in addition to their commissions.

This would effectively eliminate concern for a tip differential, though if employers so chose, it could also mean declining incomes for employees whose combined income exceeded the new minimum.

Training Differentials. At least two informal training differentials can be considered. The first would allow a lower minimum for 16 and 17 year olds. It could be justified on the grounds that teens in this age group: (1) tend to be less reliable and are still learning how to accept responsibility and exercise judgement, and (2) are still not adults and so the notion of "just and favourable" remuneration is not as important -- especially if there are programs to ensure financial support (possibly earned income supplements) for parents with teenaged children where needed. The result could be to substantially limit disemployment effects, because it is this age group that is most susceptible to these effects; moreover, because these workers represent almost a third of minimum wage earners, a training exemption would substantially lessen any costs of minimum wage increases to employers or consumers.

As noted earlier, Neumark and Wascher (1992) find that sub-minimum wages for teens lessen disemployment effects. Yet the evidence also suggests that U.S. employers make limited use of them (see Card et al, 1994: 494-5), perhaps because they tend to be permitted where the minimum is already low. In contrast, it would appear that a sub-minimum for teens has been widely applied in Britain (Low Pay Commission, 2000: 91)[17].

A problem is that a youth differential could be viewed as age discrimination. Ontario currently has such a differential, and similar differentials are common throughout the OECD

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[17] In Britain workers between the ages of 18 and 20 also receive a lower rate, on the grounds that they are still "novices" (Low Pay Commission, 1998: 81). But the support for this argument is questionable. The real concern appears to have been with possible disemployment effects, but as discussed earlier these effects would appear to be small within the North American context.

(OECD, 1997: fn 6)[18]. Thus, it does not appear that age discrimination is widely considered to be a problem. Nonetheless, it would be necessary to establish whether an age-based differential would be contrary to the Manitoba Human Rights Act. It would also be necessary to ensure that employers did not dismiss employees once they became eligible for the higher wage and that eligible employees indeed received this wage (see below).

The second form of training differential would be to enable employers to pay a sub-minimum to all employees during the first three to six months of their employment (or some hours equivalent). Although it is difficult to argue that experienced workers need anything approaching this length of time to learn how to do low paid and hence typically low skill work[19], an experience-based training differential could help to reduce any negative economic effects of minimum wage increases (especially where turnover is normally high). Many workplaces may already raise pay beyond the minimum wage once an employee has gained sufficient experience, in which case the economic effects of an increased minimum wage could be even further reduced by such a differential. Yet all labour market participants would still be assured of receiving the general minimum after a limited period of time, and any hardship during this period could be offset by some form of social assistance. Again, it would be necessary to ensure that employers did not dismiss employees once they became eligible for the higher wage and that eligible employees indeed received this wage (see below).

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[18] A number of countries have "tapered" minimum wages, so that the differential declines with age, finally reaching the full minimum at age 20, 21, or 22 (depending on the country).

[19] In the U.K., a similar differential exists, but only for employees in an accredited training program. Unfortunately, such programs are limited largely to apprenticeships within the Manitoba context. The assumption of this report is that apprentices will continue to receive the exemptions already established under the law.

Exemptions. A number of exemptions can be considered. At present, for example, disabled workers qualify for exemptions, and this might be extended to include workers with other disadvantages (e.g., illiteracy). In addition, exemptions are allowed in the case of workers enrolled in a formal training (usually apprenticeship) program. Finally, workers in a number of occupations, such as agricultural workers and baby sitters, are not covered. Any such exemptions should, however, be based on a clear rationale. In this respect, the exemption for agricultural workers is especially open to question.

A further possibility, one that could prove especially valuable to low pay industries unlikely to benefit from the above exemptions yet subject to considerable competitive pressure (e.g., garment manufacturing) is to allow employers some form of "hardship" exemption provided that they meet certain criteria. To allow employers to obtain the consent of affected workers on a worker by worker basis would likely prove coercive, so it would seem critical to ensure that affected workers were represented collectively and that this representation was independent of management. For example, Freeman (2000) has suggested that employers might be allowed to negotiate a temporary exemption through collective bargaining. This would be similar to opt-out provisions for selected labour standards found in some Canadian jurisdictions. It could thus be used only by unionized employers, with nonunion employers having to first recognize a union before they could qualify. One alternative would be for workers to join and then seek assistance from a union, but without having to go through a certification process. This has traditionally been the case in Britain. But the possibility of "sweetheart" deals arises in this case. It may also be possible to have other independent bodies to represent workers in this regard (e.g., similar to the Unemployed Help Centre), though there is little reason to think that these bodies would be as prepared to represent workers as would a union.

C. Complementary Policies

A number of possible complementary policies have been identified in earlier sections. It should be clear that the minimum wage should not be viewed in isolation from other labour market and social policies. Ideally, any attempt to implement a just and favourable minimum wage would either represent part of a broader social and economic program or would be coordinated with related policies and programs. Britain provides an example in this regard (see Low Pay Commission, 2000: 141-149). Since its election in 1997, the Blair government has implemented a series of policies similar to those identified here in an attempt to improve the living standard of low paid workers and their families. Although the applicability of such policies to the Manitoba context may be limited in a number of ways, they warrant further consideration. However, it is beyond the present purpose to consider these policies in greater depth. They are thus only outlined below.

Earned income tax credits. These are available in both the U.S. and the U.K., and are specifically targeted at the working poor. They could be especially useful for groups of workers who do not qualify for the general minimum if there are differentials and have a demonstrated need for additional income. They could also be substantially enhanced if there are dependent children, so that income per hour worked would be sufficient to support the individual and her children in accordance with a set standard (e.g., the A.L.L. for single parent with two children).

Increased personal tax exemptions. This could increase the after-tax income of some low pay workers and help to ensure that any minimum wage increases would not push more of these workers into paying taxes. However, it would not be particularly efficient and could result in substantial revenue losses unless offset by a change in the marginal tax rates for middle and upper income groups.

Active labour market policies. These policies would entail active employment searches for displaced low wage workers, potentially with wage subsidies for employers (as has been experimented with in Germany: see Eironline, 2000b). These policies might also include remedial education to address basic skill deficiencies as well as vocational training, with income support during this period. As noted earlier, a third of low wage workers appear to be high school drop-outs, many of whom may lack basic literacy skills.

Employer assistance programs. Research by Edwards et al (2000) underscores the difficulties that small employers may have adapting to minimum wage increases, difficulties that often arise from a lack of knowledge and expertise. They argue that employer networks or associations can potentially provide this knowledge and expertise to members, although there may also be some role for government.

Co-decision or consultation rights for workers. These could be broad, or they could be limited to decisions on how to adjust to a higher minimum wage. This option is likely to be initially resisted by employers (as were similar arrangements in Europe), although they could help to ensure that employers were under greater pressure to take the "high road" of improving training and quality when responding to a minimum wage increase, and there is some likelihood that an employer would find employee input of value in the adjustment process.

Establishment of sectoral wage and training councils. These councils would set standards that fell above the minimum, though it could also be possible for them or for member firms to apply for a temporary sub-minimum, subject to the agreement of elected employee representatives. As discussed earlier, sectoral wage councils have a long history in the U.K., and could develop into sectoral bargaining arrangements, although this did not happen in the U.K.. There has also been some experimentation with sectoral councils within Canada, directed primarily at training and

workforce adjustment. The latter might prove especially useful for enabling employers to adjust to increased minimum wage levels through skill upgrading rather than cost reduction strategies. Indeed, sectoral arrangements could serve as vehicles for all except the first two of the policies considered above, thereby strengthening both employer associations and employee rights, while avoiding the difficulties that can arise with some of these policies at the workplace level.

D. Implementation, Monitoring, and Evaluation.

It is beyond the scope of this paper to consider matters of implementation, monitoring, and evaluation in any depth. They involve a number of essentially technical issues that can be addressed only once the questions already considered in this section have been resolved. However, a few general observations are possible.

Although current research indicates that orthodox economic theory may over-estimate the effects of minimum wage increases, a just and favourable minimum wage would probably require an increase outside of the range of economic theory (i.e., well above 10 percent). Moreover, even if it can be assumed that minimum wage increases have few enduring economic effects, they can create a substantial uncertainty and adjustment problems for employers, and hence (perhaps) considerable resistance in the employer community. Both problems could be lessened to the extent that the just and favourable standard was implemented gradually, with substantial advance notice of each increase to employers.

In addition, even with gradual implementation, a just and favourable minimum wage might have undesirable consequences. We also do not know how Manitoba employers might adjust. It would thus also be important to monitor the effects of each increase in accordance with their effects on both employees and employers, so that subsequent increases could be halted if unforeseen problems arose. The effects on employees might be accomplished through use of LFS

data, while the effects on employers might be accomplished by surveys similar to ones conducted by the British Low Pay Commission (2000: 171-174), as reproduced in Appendix B.

A further problem may be how to ensure employer compliance not just with a just and favourable minimum, but also with laws surrounding any tipping or training differentials, if implemented. However, it might be possible to establish an "honour system" with the employer community, on the understanding that evidence of significant violation would mean discontinuance of the differential in question (employers would also be subject to normal enforcement procedures). The extent to which employers as a group were in compliance could then be monitored through the Labour Force Survey (LFS). This survey makes it possible to establish the percent of workers who receive tips or commissions but whose total average hourly earnings fall below a given level. It also makes it possible to establish if workers are paid the full minimum wage once they meet the age or experience levels necessary to qualify, and if there is a "spike" in dismissals or quits at these levels. To the extent that a preset percentage of employees appeared not to be receiving the pay to which they were legally entitled or a spike was occurring, the provision in question could be reviewed and possibly modified or revoked. This might in turn provide an incentive for employer groups to actively promote member compliance and participate in some way in the enforcement process. However, limitations to the LFS (see below) could render such a system difficult to monitor.

E. Conclusions

It would seem that there are a multitude of alternative standards for establishing what constitutes a just and favourable minimum wage. Of these, an absolute standard would seem to be preferable, because it is more substantively based and appears less arbitrary. However, the likely effects of any chosen standard are likely to vary depending on the extent of any

differentials or exemptions. Much may also depend on the extent to which complementary policies are in place. A just and favourable minimum wage should in this respect be coordinated with other policy initiatives relevant to the relationship between work, income, and the social welfare. Finally, the effects and effectiveness of a just and favourable minimum wage policy would likely depend in considerable measure on how this policy is implemented, monitored, and evaluated. All of these considerations represent matters of design.

Part V

Some Data

In this section, I use Labour Force Survey (LFS) data for the province of Manitoba to address the design issue by comparing the likely effects of alternative standards for setting the minimum wage and examining the implications of various exemptions and implementation systems. First, I establish what the minimum wage would be if set in accordance with various standards discussed earlier. Second, I compare the percentage of the workforce likely to be affected if various standards were adopted, both with and without various exemptions. Third, I compare the wage bill implications of these standards, again with and without exemptions. Fourth, I explore the likely implications of alternative standards for selected sectors. Finally, I consider alternative implementation rates for achieving a just and favourable minimum wage.

A. Comparing Alternative Standards

Table 1 illustrates the implications of alternative standards for the minimum wage level. All estimates are rounded to the nearest $.25 for ease of comparison. For the absolute standards, estimates in brackets are adjustments to allow for inflation (2.5% in 1999-2000, 3% in 2000-2001) and hence represent current (Sept., 2001) dollars. For the relative standards, estimates are based on LFS averages for the year 2000, adjusted upward by 3% to reflect inflation.

Table 1 suggests that there is convergence between absolute and relative standards. First, the A.L.L. without computer standard, of $6.75, is 50% of median earnings. This is also the poverty standard used by both the OECD and Eurostat, and coincides with the Statistics Canada Low Income Measure (LIM). Second, the adjusted LICO, of $8.25, is 54% of the average hourly wage, which is still below the level reached in the 1970s (57.4%) and the 60% level advocated by the MFL, by the 1968 Croll report on poverty, and by the Minimum Wage Board

throughout the 1970s. However, it has become conventional to use median rather than average hourly earnings for comparison purposes, because these are not skewed upwards by high income earners and so are a more accurate representation of what the "typical" employee earns. The adjusted LICO standard is 61% of the current median wage in Manitoba. Thus, if this criterion is substituted, the adjusted LICO is consistent with the MFL's level, with the Croll report's level, and with the traditional stated objective of the Minimum Wage Board.

These convergences lend support for the establishment of a two stage adjustment to the minimum wage. However, whether they provide sound bases for minimum wage policy may be another matter in view of both political and economic considerations. Certainly, such convergences cannot be the sole criteria for establishing what the minimum wage should be. For present purposes however, they can be considered as providing a reasonable range for considering alternative possible levels for the minimum wage.

B. The Implications of Alternative Designs: Percentage of the Workforce Affected

Estimates of the percentage of the workforce affected by alternative minimum wage levels appear in table 2. A number of cautions are in order, however. First, the data in this table only indicate the percent of workers that would be affected by alternative minimum wage levels, with and without various possible exemptions. They do not allow for the relative magnitude of wage increases associated with each alternative or their implications for the provincial wage bill. These appear in table 3, as discussed below.

Second, the data in this table are the annual averages for Manitoba in the year 2000. It would be reasonable to assume that workers earning a given wage in mid-2000 would be earning roughly $.25 more as of mid-2001. Thus, for example, the figures provided for $6.25 or less in 2000 (when the minimum wage was still $6.00) would probably be similar to those provided

for $6.50 or less in a 2001 version of this data set (when the minimum wage became $6.25), other things equal. The bracketed amounts in col. a represent such adjustments.

Third, the categories are slightly mis-specified. They should be 1 cent lower in order to accurately capture the percent of workers likely to be covered by a given wage. For example, to estimate the percent of workers affected by an increase to $7.00, the earnings category should be $6.99 or less, not $7.00 or less. This could be important if there is a tendency for wage levels to cluster at round numbers (i.e., $6.75, $7.00, etc.), which is likely to be the case.

Fourth, and most important, the LFS hourly pay data are *inclusive* of tips and commissions. Thus, for example, the percent of the labour force estimated to be at or below $6.25 ($6.50) does not include those who receive a fixed hourly wage in this category yet, because of tips or commissions, earn more than this. There is little solid basis in the LFS data for estimating what proportion of the labour force such workers comprise. However, the LFS data indicate that 8 percent of the labour force receives tips or commissions. For estimation purposes, it can be assumed that half of these workers receive a fixed wage that is at or below each wage category in this table (a third are in restaurant and food services, where virtually all can be assumed to receive low fixed pay levels). Thus, the figures in column (b) are calculated by adding 4% to the percent reporting at or below each wage category, minus the percent of the labour force who receive tips or commissions yet still earn less than this category (with tips). For example, 13.4% earn a total hourly wage of $7.00 ($7.25) or less. There are 1.7% who receive tips or commissions yet still earn only this amount. The estimated total earning 7.00 ($7.25) or less before tips or commissions, and hence likely to be directly benefitted by a minimum wage increase to this level, is 13.4 + 4 - 1.7 = 15.7%. This is the "no exempts" calculation (col. b). The "tips exempt" calculation (col. c) indicates the percent of workers likely

to benefit if those with tips or commissions and earning above a given minimum are exempted (i.e., not covered). Thus, at the $7.00 level, the figure would be 15.7 - 4 + 1.7 = 13.4%.

Due to the crudeness of the tipped employees estimate, the figures in this table may (with the exception of cols. c, g, and h) systematically over- or under-estimate the percentage of workers likely to be affected by a given alternative by as much as one or two percent. There is also reason to believe that the percent of the employed workforce receiving tips or commissions, and the amount received, are under-reported in the LFS data (see below). However, these figures can still be considered useful for comparative purposes, to explore the extent to which different alternatives can be expected to have different implications.

A number of observations follow from this table. First, it is noteworthy that the percentage of workers earning a given level or less (col. a) jumps at the $7.00 ($7.25) and $8.00 ($8.25) levels. There are three possible reasons for this: (1) labour market imperfections mean that employers have considerable discretion in setting wages and cannot establish the implications of specific wage levels, selecting round numbers because they are "easy", (2) round numbers have symbolic importance to workers and hence positively affect employee quality, morale, and retention, (3) respondents to the LFS who are asked about the earnings of other household members (i.e., "proxy" respondents) lack precise information and hence provide "guesstimates" using round numbers.

Second, there has been a tendency to use reported earnings as the basis for estimating the percent of workers likely to be affected by a given minimum wage increase. But as noted above, reported earnings include tips and commissions. The problem is that tipped employees must be paid the established minimum wage exclusive of tips. Thus, an individual may report earnings substantially above the minimum yet receive a base wage at or near the minimum. To

the extent that this is the case, estimates of the percent affected by a given increase are biased downwards if based on reported earnings. Although the estimates in table 2 may be crude, they indicate that this bias may be considerable. When tips and commissions are excluded (col. a), the percentage of the labour force estimated to be within $.25 of the minimum wage (i.e., $6.25 ($6.50)) increases from 6.3 to 10.2 percent. This effect tends to drop off at higher levels, although the drop off rate may be lower than suggested in table 2 if tips and commissions are under-reported.

Third, and most important, the estimates in table 2 suggest that exemptions from any minimum wage increase would make a major difference. A tips exemption, an under 18 exemption, and an under three months exemption are in combination equivalent to about one dollar's difference in the percentage of workers covered at different wage levels. For example, a $7.00 ($7.25) minimum wage with no exemptions (col. a) is estimated to cover the same number of workers as an $8.00 ($8.25) minimum with all three exemptions (col. g). If the under three months exemption was expanded to six months for those working under 20 hours per week, the equivalent increases to as much as $1.25. With these exemptions, the percent of the labour force affected by an increase in the minimum wage to the adjusted LICO standard of $8.00 ($8.25) would be only 3 to 4 percent higher than the percent of the labour force affected if the minimum wage was increased to the A.L.L. without computer standard of $6.50 ($6.75) with no exemptions.

In short, the estimates in table 2 indicate that "targeting" may make a major difference. That is, exempting groups of workers for which there is little or no social policy gain from increasing the minimum wage can substantially reduce the percent of the workforce affected by a major increase to the minimum wage. Not only does targeting help to increase the

effectiveness of a sizeable increase in the minimum wage from a social policy standpoint, it also reduces the likely economic effects. This may be especially so given that the exempted workers may be those that are most vulnerable to disemployment effects. Moreover, these implications would be even greater if, as in a number of OECD countries, workers up to 21 yrs. of age received a lower minimum. Such exemptions would, however, be difficult to justify.

C. The Implications of Alternative Designs for the Wage Bill

The percentage of workers affected by a minimum wage increase may be important from a social policy perspective, but it may be misleading as an indicator of likely economic effects. Because there is a larger average increase for each worker affected as the minimum increases, the implications of any given increase for the provincial wage bill may be greater than suggested by the additional percentage of workers affected. This could also have implications for the effectiveness of exemptions.

Table 3 provides estimates of the implications of alternative minimum wage levels for the provincial wage bill, both with and without a sub-minimum. The exemptions referred to in cols. e to g of this table include under 18, tipped employees, and less than three months experience with an employer, all as computed in table 2. The "% of workers affected" is also from table 2. Again, the data in this table are the annual averages for Manitoba in the year 2000. Thus the bracketed figures in column (a) are probably more accurate reflections of the likely effect of a given minimum wage as of October, 2000.

To estimate the relative magnitudes in cols. c and f, it would be useful to know the average wage within each category. These data are not available (though they can be obtained from Statistics Canada), so it is assumed that the average wage of workers falling in between two wage levels (e.g., $7.00 and $7.25) is the average of these two levels (e.g., $7.125). Thus,

if the minimum was raised to the higher of these two levels (e.g., $7.25), persons falling between them would on average receive an increase of $.125. This figure is then multiplied by the percentage of workers affected that would be in between the same two levels (e.g., for no exempts, 16.1%-15.7%=.4% are between $7.00 ($7.25) and $7.25 ($7.50), so .4 X .125). The same is then done for every category (e.g., for those between $6.75 ($7.00) and $7.00 ($7.25), a $.375 increase is assumed if the minimum wage is raised to $7.25 ($7.50); this is then multiplied by 15.7 - 12.6 = 3.1). Finally, all of the calculations are added together to get the figure in cols. c and f (e.g., 14.51 for col. c, 8.10 for col. f).

The estimated wage bill affects are in cols. d and g. To compute these estimates, I multiplied the Manitoba average hourly wage as of Nov. 2000 ($14.08) by 100. I then divided the col. c and f figures into this figure. Thus, for $7.25 ($7.50), I divided 14.51 and 8.10, respectively, into 1408.00.

These figures may substantially over-estimate actual wage bill effects. First, each category should be lowered by 1 cent (e.g., $7.00 to $6.99), for reasons outlined in the discussion of table 2. This means that the estimates in columns b and e may be too high. Second, and for similar reasons, the assumption that the average difference between categories is $.125 may be too high. This would mean that the estimates in col. c are too high as well. Third, there are a number of reasons why, even without these data limitations, the estimates may be too high if used to establish the likely effects of a minimum wage increase. For example, some employers may compensate for increases by finding ways to cut wage costs, while others may seek ways to circumvent or simply violate the law. Finally, due to low unemployment, the rate of pay increase for low income earners may have outstripped our assumed growth rate of $.25 per year. For example, the most recent estimate of the average industrial wage indicates

an increase of 4% between Nov. 2000 and April, 2001. If the wages of low pay workers are most affected by high unemployment levels, then we might actually expect an even higher increase for these workers when unemployment falls.

Despite these limitations, the data in this table are again of use for comparing the effects of different minimum wage levels and of the exemptions considered. In particular, this table also suggests that the effects of a higher minimum age may be relatively small -- substantially lower than suggested by the percent of workers affected. For example, although an increase to the A.L.L. standard of $6.75 ($7.00) would directly affect an estimated 12.6% of the labour force, it would entail an increase in the provincial wage bill of only about 0.5%. An increase to the adjusted LICO standard of $8.00 ($8.25) would directly affect an estimated 21.8% of the labour force, but increase the wage bill by only an estimated 2.01%.

On the other hand, it is apparent that the wage bill effect does increase at a substantially greater rate than does the percent of workers affected. For example, a minimum wage of $6.75 ($7.00) would increase the percentage of workers affected by a magnitude of only 1.5 (15.7/10.2) compared to the percentage affected by a wage of $6.25 ($6.50), but the wage bill effect would increase by a multiple of 5.6 (.50/.09). An increase from $6.75 ($7.00) to $8.00 ($8.25) would increase the workers affected by 1.7 (21.8/15.7) but the wage bill effect by a multiple of 4 (2.01/.50).

The extent to which exemptions decrease the wage bill effects would appear to be slightly greater than is the case for the percent of workers affected. For example, if the minimum wage was raised to $6.75 ($7.00), the exemptions would decrease the percent of workers affected by 42%, but the wage bill by 48%. If it was raised to $8.00 ($8.25), these figures would be 28% and 34%. However, while the exemptions appear to be worth about $1.00 with respect to the

percent of workers affected, they are worth only about $0.50 with respect to wage bill effects, at least over the range from $6.75 ($7.00) to $8.00 ($8.25). In other words, the estimated wage bill effect of an increase to $6.75 ($7.00) without exemptions would be about the same as the effect of an increase to $7.25 ($7.50) with exemptions. Nonetheless, it seems clear that the exemptions still make a major difference. Thus, targeting still matters.

D. Sectoral Differences

The estimation of overall wage bill effects can also be misleading, because it does not account for the ability of employers to accommodate an increase in the minimum wage. This can be expected to vary on a sectoral basis, not just in accordance with the percentage of workers affected and the wage bill implications in that industry, but also (1) the percent labour costs are of total costs, (2) how price sensitive the demand is for a sector's main product or service, (3) the ability to substitute capital for labour, (4) the ability to relocate to lower minimum wage jurisdictions, and other factors (see section II of this report).

Table 4 contains data on sectors believed to be potentially sensitive to a substantial increase in the minimum wage. This table does not include all such sectors (e.g., hair dressing, security), although it does include those sectors often believed to be most critical within the Manitoba context. The more serious limitation is that the data in this table only address the percent of workers affected. There is need to obtain data that address the remainder of the above factors. Nonetheless, some observations can be made on a sector-by-sector basis.

First, the manufacturing sector, which accounts for 14.8% of all jobs in Manitoba, is often considered to be the most susceptible to out-of-province competition and among the most mobile. Thus, a sizeable increase in manufacturing wage costs could have significant effects on the province. Yet table 4 suggests that only 1 in 7 (15.3%) workers in this sector currently earns

$8.00 ($8.25) or less. Age and experience exemptions would lower this number to 1 in 8 (12.7%). The Manitoba LFS data are not sufficient to calculate the implications of a tip differential, but the Canada-wide data indicate that it would lower these figures by no more than .2%. These results suggest, therefore, that the effects on the manufacturing sector would be relatively small. In any case, to the extent that they had negative investment effects, we might this to be the case among "low pay" manufacturers, and so it is not clear how serious any job losses might be.

The garment manufacturing sector is an example of such a low pay sector. It is of particular note because, although it accounts for only 1.1% of all jobs in Manitoba, it is both an historically important sector and is exemplary of the type of industry in which jobs are highly mobile, readily shifted out of the province or even off-shore. The data suggest that this sector might indeed be substantially affected by a minimum wage increase: 3 in 5 (61.2%) earn $8.00 ($8.25) or less. It appears that exemptions would make little difference: even in the Canada wide data, the numbers affected are too small to be reported. There is some reason to believe that more modern "bundle production" methods could help to offset the effects of a significant increase to the minimum wage, especially if a system was in place to upgrade worker skill levels (Dunlop and Weil, 1996). Moreover, because it is highly unionized, this sector could be ideal for the negotiation of a "hardship" exemption, as suggested in section IV above. But in the absence of these or other measures, employment in this sector could be substantially affected by any major increases to the minimum wage.

The retail sector, which accounts for 11.5% of all jobs in Manitoba, is one which is typically assumed to be highly affected, because it relies extensively on low pay workers. This is borne out by the data in table 4: almost half (45.1) earn $8.00 ($8.25) or less *including* tips

and commissions. If it is assumed that half of those receiving tips earn a fixed wage that is at or below $8.00 ($8.25), this figure increases to almost exactly half (49.3%) after tips are excluded. Tipping, age, and experience exemptions would lower this substantially, to 3 in 10 (30.2%) workers. Though this is still a significant figure, it is not clear how much it would affect employment. There is need to determine the wage bill effect, labour-to-cost ration in this industry, and the methods by which employers can be expected to adopt. But this is one industry that is for-the-most-part immobile, and so we might expect any disemployment effects to be relatively small.

The food services and restaurant sector, which accounts for 5.5% of all jobs in Manitoba, is another which is typically assumed to be highly affected, again because it relies extensively on low pay workers. The data in table 4 confirm this: three quarters of all workers (76.5%) earn $8.00 ($8.25) or less *including* tips. If it is assumed that all tipped workers in this sector have a fixed hourly wage of below $6.75 ($7.00), 5 out of every 6 (83.7%) earns a base wage of $8.00 ($8.25) or less. It is striking in this regard that tipped employees tend to be low paid even when tips are factored in: only half (49.8%) make over $6.75 ($7.00) with tips included, only one quarter (23.5%) make over $8.00 ($8.25), and fewer than 1 in 6 (15.2%) makes over $10.00 (10.25) (not reported in table). In addition, only a third (33.1%) of the employees in this sector are reported as even receiving tips (not in table).

If these figures are to be believed, exemptions would reduce the impact of higher minimum wage levels on this sector: 2 out of every 5 workers (38.1%) would be exempted at $6.75 ($7.00), and 1 out of every 4 (26.7%) at $8.00 ($8.25). But although the percent of workers covered by a minimum wage increase would drop, to 31.9% and 57%, respectively, these levels remain substantial. Yet there is reason to believe that tipped earnings tend to be

under-reported, because: (1) workers may understate their tipped income for fear that (somehow) Revenue Canada will have access to the LFS data; (2) proxy respondents (individuals responding on behalf of an employed household member) may not be aware of the magnitude of tips received or even whether they are received. Although there is no direct evidence as to the former possibility, LFS data do indicate that only 31% of proxy respondents report a tip or commission, compared to 40% for non-proxy respondents (communication with Geoff Bowlby, Stats Cda).

It is therefore difficult to draw any meaningful conclusion about this sector. But if the data in table 4 are at all accurate, it would appear that the effects on this sector could be quite massive. There is again need to determine the wage bill effect, although the labour to total cost ratio is estimated to be only about 30% in this industry, which is relatively low. Moreover, this industry is also for-the-most-part immobile. A critical problem to estimating the effects on this industry is that "low tip" establishments (i.e., with tips below the amount of any differential) are likely to be affected substantially more than their "high tip" counterparts. It is likely that the former are lower priced, fast food establishments, in which elasticity of demand may be highest. But whether any decline in demand for the product of these establishments would simply entail a shift to other restaurants or sectors is unclear.

Finally, the agricultural sector, which accounts for only 1.6% of all jobs in Manitoba, is of interest because it is currently exempt from the minimum wage. The assumption underlying this exemption appears to be that most agricultural labour is employed on family farms, and that any minimum could cause substantial harm to these farms. Yet with the growth of corporate farming, it has become unclear how much this is the case. Only 1 in 10 (11 %) of the workers in this sector earned $6.00 or less as of 2000 (not reported in table), which was the minimum

wage at that time. This suggests that inclusion of the agricultural sector under the current minimum wage laws would have only a small effect. Indeed, as indicated in table 4, this sector would only be moderately affected by an increase to $8.00 ($8.25). Two out of every 5 (39.2%) currently earn this amount or less, but exemptions would lower this to 1 in 4 (24.0%). In this regard, we would expect family farms to benefit most from exemptions, because they are likely to hire workers on a temporary basis during harvest, thus qualifying for the three month exemption. We might also expect them to be more likely to hire under 18s, especially if the work entails casual labour. This would mean that corporate farms would shoulder much of the "burden" in this sector. There is no more justification for continuing to exempt these farms than there is for any other sector.

Overall, these results indicate that sectoral analysis should form an important part of any analysis of the likely impact of minimum wage increases. The extent to which these increases are likely to affect employers, and the extent to which this is in turn likely to translate into negative economic effects, is likely to vary considerably. In this respect, statements about the implications of a minimum wage for employment and "competitiveness" may miss the point: much may depend on the sector examined. The data presented above are not sufficient to provide for this kind of in-depth, more "institutional" analysis, but it at minimum points to the potential value of such analysis. These data also show how various exemptions can make a difference in those sectors most affected by an increase.

These findings are of more than academic interest. First, a problem of much economic analysis is the assumption that minimum wage effects are predetermined. But it is likely that sectors can be encouraged to respond in ways that minimize any negative consequences, and that the most effective responses will depend on sectoral characteristics. Sectoral level analysis may

also have important implications for implementation of minimum wage increases. For example, the retail and restaurant sectors are not only most affected by a minimum wage increase, they are also most likely to benefit from exemptions. The threat of withdrawing the latter in the event of violations might, therefore be sufficient to set-up an "honour system," where employers and their associations have a strong incentive to self-enforce.

E. Alternative Implementation Rates

A further issue that arises involves the rate of implementation. Table 5 illustrates the implications of alternative implementation rates if the minimum wage to meet the adjusted LICO standard, beginning from a minimum wage level of $7.00 as of October, 2002, and assuming that the current rate of increase in the CPI continues at the 2001 rate of 3%.

If the annual rate of increase was to be $0.40, then it would take until the year 2015 to reach the adjusted LICO, other things equal. If this rate was to be $0.50, $0.60, or 0.70, this period would decline, so that the adjusted LICO was achieved in 2008, 2006, and 2005, respectively.

An important problem is establishing what the optimal implementation rate for a higher minimum wage might be. As discussed in section II, economic research suggests that increases of as high as 10% have small if any effects, but such increases are usually based on an initially low minimum wage. This matters, because ideally we would like to be able to establish whether employers are able to absorb, or labour markets able to adjust to, a series of relatively small increases over time and what the magnitude of these increases can be. It may be that a portion of any negative effects of minimum wage increases at or above the upper range of 10% reflect adjustment difficulties rather than the "true" effect of a higher minimum wage. The question, therefore, is whether, and the extent to which, a series of relatively small percentage increases over a long period of time (e.g., 2% per year in each of 10 years) can be expected to have

substantially smaller economic effects than an equivalent increase (i.e., in real dollars) over a short period of time (e.g., 10% per year in each of 2 years).

At present, a lack of research on this question means that it is not readily answered. Much is in any case likely to depend on related government policies, economic conditions, and other factors that might help to cushion the impact of increases. But it is possible to argue that these increases should be "tapered," so that the percentage increase declines as the minimum climbs higher in real terms. This occurs automatically if increases are specified in absolute amounts, as in table 5. Thus, for example, an increase of $0.50 per year would mean, an increase after inflation of 4% in 2003, but an increase of only 2.2% in 2008. A rate of increase of $0.40 per year would mean increases after inflation of 2.6% in 2003, declining to .4% by 2015.

It is likely that there is a trade-off between the length of time considered to be desirable for the attainment of a policy objective and the implementation costs of that objective. Because we do not know the latter, the former may be viewed as the best criterion. For example, one might proclaim the attainment of a just and favourable wage as a long term objective to be achieved by the end of the decade. This would suggest a rate of increase of $0.45, thus calling for quite modest rates on increase. But any such decision would ultimately be a political one. It would also need to allow room for flexibility in the event of an economic downturn or increases in unemployment rates.

F. Conclusions

Analysis of the relevant LFS data is fraught with a number of difficulties and limitations. But it can shed light on the relative implications of alternative levels and designs of the minimum wage and sensitizes us to questions and issues seldom raised in the literature. In particular, these

data suggest that exempting workers under 18, receiving tips, or with under three months of tenure makes it possible to increase the minimum wage by an additional dollar without increasing the percent of the workforce affected. With regard to wage bill effects, these exemptions make it possible to increase the minimum wage by an additional $0.50. However, the percentage of the workforce affected by, and the wage bill effect of, increases in the minimum wage may vary considerably by sector, as do the likely implications of various possible exemptions. Moreover, much may depend on the ability of various sectors to adapt and how they are likely to do so. Finally, much may depend on the rate at which increases are implemented.

Part VI

Towards a Just and Favourable Minimum Wage Policy

This paper has considered the arguments for and against a just and favourable minimum wage in view of existing research. It has found that, although the evidence suggests little negative consequence from minimum wage increases, this research is limited in a number of respects. It has also found, however, that, although the minimum wage may be a blunt instrument for reducing poverty and inequality, it does help to lessen both. Moreover, these objectives should be considered secondary to the policy objectives of ensuring that the pay of low-pay workers pay is just, reflecting the potential value of their labour, and that it is favourable, or sufficient for them to be able to participate in their community. The critical issue may be not whether to have a minimum wage that meets the dual objectives of being just and favourable, but rather how it is to be designed and how it can be complemented by the appropriate social policies. In this regard, the devil may be in the details. It is one thing to make the case for a just and favourable minimum wage, and quite another to establish a standard on which to credibly base such a wage and design it so as to minimize harmful effects while maximizing desirable ones (or to at least minimize the trade-offs between the two). This problem, rather than outworn debates over the economic effects and social effectiveness of minimum wages, should be at the heart of minimum wage policy.

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Appendix A: The Winnipeg Harvest & Winnipeg Social Planning Council Acceptable Living Level (A.L.L.) for a Single Individual

The following budget is based on a hypothetical single male, mid 30s age group

FOOD

ITEM	QUANTITY	MONTHLY (cost)
Milk – 2%	2L x 4 (1/week)	$8.48
Cheddar Cheese	500g /month	$5.35
Mozzarella Cheese	250g /month	$2.75
Eggs	2 dozen /month	$3.98
Ground Beef	1kg 1/month	$5.94
Tuna	170g can x 4/month	$5.60
Chicken (or alternative)	1kg /month	$6.50
Sliced Meat	500g /month	$3.99
Bacon/Sausage	250g /month	$3.68
Beans	398ml can x 3/month	$2.67
Peanut Butter (other spreads)	250g /month	$2.69
Condiments	n/a	$5.00
Bread	4 loaves/month	$6.48
Pasta	500g /month	$3.89
Rice	500g /month	$1.59
Flour	500g /month	$0.99
Cereal	575g box /month	$5.34
Assorted Fruits	1kg per week	$6.88
Juice	1L x 4 (1/week)	$5.50
Assorted Vegetables	1kg per week	$9.64
Potatoes (raw/frozen)	10kg bag /month	$5.98
Fats & Oils	n/a	$4.00
Snacks and Others	n/a	$8.00
Beverages (coffee, tea)	300g + 20 tea bags/month	$5.72
Meal in a can (soup/stew)	284ml can x 8/month	$8.40
Other	n/a	$3.00
TOTAL/MONTH		**$132.02**
TOTAL/YEAR		**$1,584.24**

PERSONAL CARE

ITEM	QUANTITY	MONTHLY (cost)
Shampoo, Conditioner	100ml /month	$3.36
Toothpaste, brush, floss	50ml/month	$2.01
Razors	10 blades/month	$2.39
Deodorant	60g /month	$2.70
Soap	90g /month	$1.90
Haircuts	3 /year @ $10.00	$2.50
TOTAL/MONTH		**$14.86**
TOTAL/YEAR		**$178.32**

CLOTHING

ITEM	QUANTITY	YEARLY (cost)
Runners	1 pair @$60/pair	$30.00 (over 2 years)
Other Shoes	n/a	$0.00
Dress Shoes	1 pair @$40/pair	$20.00 (over 2 years)
Sandals	1 pair @$15/pair	$7.50 (over 2 years)
Winter Boots	1 pair @$40/pair	$20.00 (over 2 years)
Rubber Boots	1 pair @$15/pair	$5.00 (over 3 years)
Socks	4 pair /year	$8.00

Underwear	3 pair /year @ $5.00	$15.00
Long Underwear	1 pair @$40/pair	$20.00 (over 2 years)
Pants	2 pairs @40/pair	$80.00
Shorts	1 pairs @$20/pair	$20.00
T-Shirts/Shirts	3 shirts @$15/shirt	$45.00
Sweaters/Sweatshirts	1 sweater @$25/sweater	$25.00
Pajamas	1 pair @$15/pair	$15.00
Bathing Suit	1 suit @$20	$10.00 (over 2 years)
Winter Jacket	1 jacket @$150	$50.00 (over 3 years)
Rain Gear	1 @$30	$10.00 (over 3 years)
Miscellaneous	n/a	$15.00
TOTAL/YEAR		**$395.50**

SHELTER - Winnipeg Apartment

ITEM	QUANTITY/TYPE	MONTHLY (cost)
Rent	1 bedroom apartment	$450.00
TOTAL/YEAR		**$5,400.00**

HEALTH CARE

ITEM	QUANTITY/TYPE	YEARLY (cost)
"Bandaids"	1 box of 40 @ $3.49	$3.39
Aspirin	325mg bottle @ $6.49	$6.49
Cough Syrup	100ml bottle @ $5.49	$5.49
Health Insurance	Medi-Blue Plan @$19/month	$228.00
Life Insurance	n/a	$200.00
TOTAL/YEAR		**$443.37**

CHILDCARE

ITEM	QUANTITY/TYPE	YEARLY (cost)
n/a	n/a	$0.00
TOTAL/YEAR		**$0.00**

TRANSPORTATION – Public transit

ITEM	QUANTITY/TYPE	YEARLY (cost)
One Adult bus pass	@ $59.70/month	$716.40 (12 months)
Taxi (1 trip per week)	@ $8.00 per trip	$480.00 (12 months)
TOTAL/YEAR		**$1,196.40**

HOUSEHOLD OPERATIONS

ITEM	QUANTITY/TYPE	MONTHLY (cost)
Laundry Supplies	10k box /year	$4.00
Coin Operated Laundry	10 wash & dry /month	$15.00
Multipurpose Cleaner	650ml x 2 /year	$3.00
Toilet Paper	2.5 rolls /month	$2.50
Facial tissue, paper towels	n/a	$2.00
Miscellaneous	n/a	$2.00
Light Bulbs	n/a	$2.00
Stamps, envelopes, etc.	n/a	$5.00
TOTAL/MONTH		**$35.50**
TOTAL/YEAR		**$426.00**

EDUCATION

ITEM	QUANTITY/TYPE	YEARLY (cost)
n/a	n/a	$0.00

COMMUNICATION

ITEM	QUANTITY/TYPE	YEARLY (cost)
Telephone	$35/month	$420.00
Long Distance Plan	$20/month	$240.00
TOTAL/MONTH		**$55.00**
TOTAL/YEAR		**$660.00**

RISK MANAGEMENT

ITEM	QUANTITY/TYPE	MONTHLY (cost)
Savings /emergency fund	$20.00 / month	$240.00
TOTAL FUND/YEAR		**$240.00**

BANKING

ITEM	QUANTITY/TYPE	YEARLY (cost)
Bank Account Service Fees	$10/month	$120.00
Total/Year		**$120.00**

HOUSEHOLD FURNISHINGS

ITEM	QUANTITY/TYPE	YEARLY (cost)
Broom, Mop/Bucket & Dustpan	n/a	$10.00 (over 2 years)
Vacuum Supplies	n/a	$10.00
Linen: Bedroom, Bathroom, Kitchen	n/a	$50.00
Dishes, Utensils, Flatware, Etc.	n/a	$20.00
Household Hardware	n/a	$40.00
Furniture	n/a	$100.00
Small Appliances/Other appliances	n/a	$75.00
TOTAL/YEAR		**$305.00**

RECREATION & LEISURE

ITEM	QUANTITY/TYPE	MONTHLY (cost)
General Recreation	n/a	$8.00
Lessons	n/a	$0.00
Special Occasions	n/a	$5.00
Personal Interest	n/a	$10.00
TOTAL/YEAR		**$95.00**
TOTAL/YEAR		**$1,140.00**

- The total budget for a single male, mid 30s age group is **$12,088.83** per year, after tax.
- With the addition of computer, printer and internet service ($620.00) the total budget for a single male, mid 30s age group would be **$12,708.83** per year, after tax.

Appendix B: the Low Pay Commission Surveys

National Minimum Wage Survey: One

PART A

1. **How many workers does your business currently employ (full-time, part-time, casual and all other workers)?**

   Total (all ages) ☐

2. **Will the National Minimum Wage affect your business?** *(Please tick box)*

   Yes ☐ *Please go to Question 3*

   No ☐ *Please go to Question 9 (and return questionnaire even if nothing further to add)*

PART B *(Applies only if answered yes to Question 2)*

3. **How many workers in your business are:** *(Please insert numbers)*

   a) Aged under 18? ☐

   b) Aged 18 to 21? ☐

   c) Aged 22 or over? ☐

   Aged 18 to 21 and earn less than £3.60 per hour (excluding overtime)? ☐

   Aged 22 or over and earn less than £3.60 per hour (excluding overtime)? ☐

4. **What is likely to happen to your TOTAL pay bill as a result of the National Minimum Wage? (Include changes already made in anticipation of the minimum wage.)**

   a) No change ☐

   b) Increase by less than 2.5% ☐

   c) Increase by 2.5% to 5% ☐

   d) Increase by 5% to 10% ☐

   e) Increase by over 10% ☐

   f) Don't know ☐

5. **What is likely to happen to the pay of your workers earning above £3.60 per hour as a result of the National Minimum Wage?**

   a) No change ☐ *Please go to Question 6*

   Pay will rise ☐ *Please answer b), c), and d)*

	Yes	*No*	*No one in Pay Band*	*Don't Know*
b) Pay will rise for workers earning £3.60–£4.00 per hour	☐	☐	☐	☐
c) Pay will rise for workers earning £4.01–£5.00 per hour	☐	☐	☐	☐
d) Pay will rise for workers earning £5.01 per hour and above	☐	☐	☐	☐

6. **As a result of the National Minimum Wage, are you planning any of the following:**
(If yes, please tick box)

a) Changes in work organisation (e.g. working patterns, shift systems, overtime working, the mix of full-time and part-time labour)? ☐

b) Tighter controls on labour costs (e.g. treatment of absence, paid breaks, staff meals, overtime premia)? ☐

c) Increased investment in training and development of workers? ☐

d) Increased use of technology? ☐

e) Improved quality of service or product? ☐

7. **Will the National Minimum Wage mean you have to take ANY of the following action:**

	Definitely	*Maybe*	*No*	*Don't Know*
a) Significantly change workers' pay and benefits structures (e.g. payment methods, overtime premia, pay supplements, commission or tips, workers benefits)?	☐	☐	☐	☐
b) Significantly reduce staffing levels?	☐	☐	☐	☐
c) Significantly reduce working hours?	☐	☐	☐	☐
d) Significantly increase prices?	☐	☐	☐	☐
e) Significantly reduce profits?	☐	☐	☐	☐

8. **How important is the National Minimum Wage compared to other factors affecting your business (e.g. customer demand/regulation/interest rates/competition from other businesses)?**

Very important ☐ Fairly important ☐ Minor importance ☐ Not important ☐

PART C

9. **Please specify any other significant effects of the National Minimum Wage on your business (e.g. in the cost to you of materials, goods or services) or provide more details on any of the above.**

_____

National Minimum Wage Survey: Two

1. **How many workers in your business are:** *(Please insert numbers)*

   a) Aged under 18 ☐ b) Aged 18 to 21 ☐ c) Aged 22 or over ☐

2. **Has the National Minimum Wage directly affected your business?** *(Please tick box)*

   Yes ☐ *go to Question 3* No ☐ *go to Question 8 (overleaf)*

3. **What has happened to your TOTAL pay bill as a result of the National Minimum Wage?**

   a) No significant change ☐ b) Increased by less than 5% ☐

   c) Increased by 5 to 10% ☐ d) Increased by more than 10% ☐

4. **Have you increased the pay rates of higher grade staff (e.g. supervisors) to maintain pay differentials as a result of the National Minimum Wage?**

   a) Yes ☐ Please specify the highest hourly rate you had to increase (i.e. the rate before the introduction of the minimum wage) £ ☐

   b) No ☐

5. **Has the National Minimum Wage led to any of the following benefits for your business?** *(Please state whether significant, slight or none.)*

	Significant	Slight	None
a) Lower staff turnover	☐	☐	☐
b) Higher staff motivation	☐	☐	☐
c) Faster filling of vacancies	☐	☐	☐

6. **As a result of the National Minimum Wage, have you taken any of the following actions?** *(Please state whether significant, slight or none.)*

	Significant	Slight	None
a) Changed work organisation (e.g. working patterns, shift systems, overtime working, mix of full- and part-time labour)	☐	☐	☐
b) Tightened controls on labour costs (e.g. treatment of absence, paid breaks, staff meals, overtime premia)	☐	☐	☐
c) Increased investment in training and development of workers	☐	☐	☐
d) Increased the use of technology	☐	☐	☐
e) Improved the quality of service or product	☐	☐	☐

7. **Has the National Minimum Wage led to any of the following in your business?**
(Please state whether significant, slight or none.)

	Significant	Slight	None
a) Changes to workers' pay and benefits structures: (e.g. payment methods, overtime premia, pay supplements, commission or tips, worker benefit)	☐	☐	☐
b) Overall reduction in staffing levels	☐	☐	☐
c) Reductions in the number of working hours of workers	☐	☐	☐
d) Increases in prices	☐	☐	☐
e) Reduction in profits	☐	☐	☐

8. **Do you have age-related pay structures?** Yes ☐ *(go to Q9)* No ☐ *(go to Q12)*

9. **At what age is a worker entitled to the adult rate?** ☐

10. **Enter the current minimum hourly rates for workers in each of the following age groups in your business. If you have no workers in any age band please leave blank**

Under 18 £ ☐ 18 £ ☐ 19 £ ☐ 20 £ ☐

21 £ ☐ 22 £ ☐ 23 or over £ ☐

11. **There could be a number of reasons why employers have age-related pay structures. Some of these are listed below. Please tick which, if any, are applicable in your case**

Productivity ☐ Reliability ☐ Experience ☐

Tenure ☐ Recruitment ☐

Other (please specify) _____

12. **If there are no age-related pay structures, what other factors account for differences in workers' pay?**

Experience ☐ Qualifications/skills ☐ Responsibilities ☐

Length of service ☐ Performance assessment/appraisal ☐

Other (please specify) _____

13 **Use this space to make any other comments about the National Minimum Wage**

Table 1

Alternative Standards for Setting the Minimum Wage

Absolute Standards

a) 2000 Fraser Institute standard ($10,000/yr.), 40 hrs/wk. = $4.81 ($4.95) = $4.75 ($5.00)

b) 2000 A.L.L., with computer ($14,409/yr.), 40 hrs/wk = $6.93 ($7.14) = $7.00 ($7.25)

c) 2000 A.L.L. without computer ($13,702/yr.), 40 hrs/wk = $6.59 ($6.79) = $6.50 ($6.75)

d) 1999 LICO ($17,886/yr.), 40 hrs/wk = $8.60 ($9.03) = $8.50 ($9.00)

e) 1999 adjusted LICO[1] ($16,097/yr.), 40 hrs/wk = $7.74 (8.13) = $7.75 ($8.25)

Relative Standards

f) OECD and Eurostat poverty line = 50% of median earnings[2] = $6.75

g) Statistics Canada Low Income Measure (LIM) = 50% of median earnings = $6.75

h) Council of Europe low income level = 68% of median earnings = $9.28 = $9.25

i) Croll Report (1968) poverty standard = 60% of average earnings[3] = $9.23 = $9.25

j) MFL recommended minimum = 60% of average earnings[3] = $9.23 = $9.25

NB. All estimates are rounded to the nearest $.25. Estimates in brackets are adjusted to allow for inflation and hence represent current (Sept., 2001) dollars.

1. Based on a 10 percent downward adjustment. See fn. 12.

2. Median hourly earnings in Manitoba are assumed to be $13.50, which is the LFS estimate for the year 2000, adjusted upward by 3% to allow for price increases.

3. Average hourly earnings in Manitoba are assumed to be $15.38, which is the LFS estimate for the year 2000, adjusted upward by 3% to allow for price increases.

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Table 2

The Percentage of the Workforce Affected by Alternative Min. Wage Levels, With and Without Possible Exemptions

(a) earnings categories 2000 (2001)[1]	(b) no exempts[3]	(c) tips exempt	(d) under 18 exempt	(e) under 3 mos. exempt	(f) under 3 mos. f.t. & 6 mos. p.t. exempt	(g) c, d & e exempt	(h) c, d & f exempt
$6.25 ($6.50) or less	10.2	6.3	8.1	9.2	8.7	4.0	3.5
$6.50 ($6.75) or less	11.8	8.9	9.6	10.8	10.1	6.7	6.0
$6.75 ($7.00) or less	12.6	9.9	9.7	11.2	10.1	7.3	5.6
$7.00 ($7.25) or less	15.7	13.4	12.4	13.9	13.0	9.5	8.6
$7.25 ($7.50) or less	16.1	14.0	12.8	14.3	13.4	10.1	9.2
$7.50 ($7.75) or less	18.3	16.4	14.8	16.2	15.2	12.0	11.0
$7.75 ($8.00) or less	18.9	17.0	15.3	16.8	15.8	12.7	11.7
$8.00 ($8.25) or less	21.8	20.4	18.0	19.4	18.3	15.7	14.6
$8.25 ($8.50) or less	22.6	21.3	18.8	20.1	19.0	16.8	15.7

Note: All data in this table are obtained the Labour Force Survey (LFS) for the year 2000, and pertain to Manitoba only. Due to limitations to the LFS (see text), all estimates in this table should be considered as rough approximations.

1) At a 3% rate of inflation, it would be reasonable to assume that the percent of workers within a given category in 2001 would be earning roughly $.25 more as of October 2001. Thus, the bracketed wage levels are probably more accurate reflections of the likely effect of a given minimum wage as of October, 2001.

Table 3

The Wage Bill Implications of Alternative Min. Wage Levels, With and Without Possible Exemptions

(a) alternative minimum wage levels 2000 (2001)[2]	no exemptions			age, tip, & experience exemptions[1]		
	(b) % of workers affected[3]	(c) relative magnitude	(d) wage bill % increase	(e) % of workers affected[3]	(f) relative magnitude	(g) wage bill % increase
$6.25 ($6.50)	10.2	1.28	.09	4.0	.50	.03
$6.50 ($6.75)	11.8	4.03	.29	6.7	1.84	.13
$6.75 ($7.00)	14.6	7.08	.50	7.3	3.60	.26
$7.00 ($7.25)	15.7	10.53	.75	9.5	5.65	.40
$7.25 ($7.50)	16.1	14.51	1.03	10.1	8.10	.57
$7.50 ($7.75)	18.3	18.81	1.34	12.0	11.04	.78
$7.75 ($8.00)	18.9	23.36	1.66	12.7	14.13	1.00
$8.00 ($8.25)	21.8	28.37	2.01	15.7	18.63	1.32
$8.25 ($8.50)	22.6	34.02	2.41	16.8	22.67	1.61

Notes:

1) The exemptions referred to in cols. e to g include: under 18, tipped employees, and less than three months experience with an employer, all as computed in table 2.

2) As for table 2, the data in this table are the annual averages for Manitoba in the year 2000. They may therefore be dated. At a 3% rate of inflation, it would be reasonable to assume that the percent of workers within a given category in 2001 would be earning roughly $.25 more as of October 2001. Thus, the bracketed wage levels are probably more accurate reflections of the likely effect of a given minimum wage as of October, 2001.

3) The "% of workers affected" is from table 2.

Table 4

Percentage of the Workforce Affected by Alternative Min. Wage Levels, With and Without Exemptions: Sectoral Breakdowns

earnings categories 2000 (2001)	Manufacturing (14.8% of all jobs)			Retail (11.5% of all jobs)			Food Services & Restaurant (5.5% of all jobs)		
	% no exemptions		% all exemptions	% no exemptions		% all exemptions	% no exemptions		% all exemptions
	with tips & coms.	without tips & coms.		with tips & coms.	without tips & coms.		with tips & coms.	without tips & coms.	
$6.75 ($7.00)	3.9	3.9	3.2	23.4	27.9	13.7	50.2	70.0	31.9
$7.00 ($7.25)	7.3	7.3	5.6	30.1	34.7	16.9	60.1	74.0	40.2
$7.75 ($8.00)	11.1	11.1	8.8	39.1	42.0	26.6	68.9	80.0	49.7
$8.00 ($8.25)	15.3	15.3	12.7	45.1	49.3	30.2	76.5	83.7	57.0

earnings categories 2000 (2001)	Garment Manufacturing (1.1% of all jobs)			Agriculture (1.6% of all jobs)		
	% no exemptions		% all exemptions	% no exemptions		% all exemptions*
	with tips & coms.	without tips & coms.		with tips & coms.	without tips & coms.	
$6.75 ($7.00)	28.6	28.6	28.6	20.0	20.0	13.4
$7.00 ($7.25)	40.8	40.8	40.8	27.0	27.0	16.3
$7.75 ($8.00)	49.0	49.0	49.0	32.4	32.4	17.5
$8.00 ($8.25)	61.2	61.2	61.2	39.2	39.2	24.0

Notes: * = Canada wide data are substituted due to lack of available Manitoba data.
See table 2 for remaining explanatory notes.

Report of the Employee Representatives
to the Minimum Wage Review Board

October 3 2001

Preamble: We wish, at this time, to thank Professor John Godard for the conduct of the various meetings, his initiative, research, new ideas and overall conduct of the Minimum Wage Review Board of Manitoba.

1. **Formula to increase minimum wage devoid of political discretion.**

It is imperative that increases in minimum wage should no longer be a political decision but should be based on an impartial standard devoid of bias and based on a minimum acceptable living level for a single individual in the Province of Manitoba and should be increased on a systematic yearly basis after an acceptable level has been reached.

This must be enshrined in new legislation, more difficult to change by succeeding governments or political parties, requiring a two-thirds (⅔) majority of the House.

A. The Formula.

The formula to start this process should be the Acceptable Living Level as prepared by the Social Planning Council of Winnipeg and Winnipeg Harvest, March 2001.

This will bring existing minimum wage from $6.25 to $7.00 per hour. The increase should be as follows:

March 1, 2002 - $6.75
October 1, 2002 - $7.25

(The additional $0.25 is to take care of the cost of living.)

Thereafter, the minimum wage should be increased on March 1, 2003 based on Statistics Canada Low Income Cut Off, or LICO, and by adjusting the LICO downward to reflect Manitoba's lower cost of living, then adjusting upward to reflect changes in the cost of living and subsequent to the date of data collection for the most recent release.

The Manitoba finance data accompanying the 2000 budget indicated that the cost of living in Manitoba is 88.5 percent of the average for the ten Canadian provinces.

This then must, each and every year, be the method of calculation, calculated six (6) months in advance of the due date of the increment. This would bring it to about $7.75 effective March 1, 2003 based on the 1999 figures.

2. Exemptions and Reasons for Same

i) To exclude from an immediate increase people on tips is not a workable, enforceable, or practical solution even if all workers receive tips. The proposal to have tips included is not acceptable either. Probably 80 percent or more of the hotel and restaurant employees are non-union and individual employee's job security will strictly depend on the employer's willingness to keep the employee employed under whatever rules and regulations regarding tips are in place. The tips vary and are paid by credit card or cash and are sometimes distributed to non-service employees. We reject this exemption.

ii) Exempting an employee if they are under eighteen (18) years of age would be discrimination based on age. One cannot justify that an employee under eighteen (18) years of age is not as reliable, nor do they do less acceptable work, nor are they less mature than an employee eighteen and one- half (18½) years of age.

iii) A lower minimum for training is also rejected because this wage is a minimum to survive. When you start a job, whether training or not, your cost of living, paying rent, food, car, etc. is the same and this wage is a minimum. Besides, some jobs have one (1) week of training while others have six (6) months.

3. Agricultural workers covered by minimum wage.

Agricultural workers who are hired on a seasonal or permanent basis must be covered by minimum wage. There are no valid reasons to keep them from coverage, bearing in mind that the existing minimum wage and even the one being proposed will continue to be below the poverty line.

4. The suggestion that the Government should consider exemption for hardship cases, provided they are negotiated with employers of and for the disadvantaged, as well as disabled labour market participants may be a commendable ides, but it is not practical or workable; neither is a sub-minimum wage, as commented above, for those either under 18 years of age or for training purposes; neither is the Government to consult with employers with the possibility of developing adjustment assistance programs for employers affected by minimum wage increases. The suggestion for the Government to approach various employer groups to explain the effect of an increase in the minimum wage to alleviate the employers' fears, is a good one.

5 Effect on employment and the employers' ability to compete.

We firmly believe that an increase to $7.00 per hour as a first step will have little or no effect on employment and that employers will adapt financially to this increase. In fact, we firmly believe that more money in the pay cheque of a minimum wage earner is immediately put back into the economy because, with this wage rate, no saving is possible. This amount of money may very well benefit some employers alleged to be the most affected by same.

In regard to the $7.75 per hour proposed earlier, because this would not take place until March 1, 2003. This too will have less effect than if implemented immediately.

In conclusion, the Employee Representatives of the Minimum Wage Review Board firmly believe that the time has come to remove the decision-making from the political arena and put the decision- making on a formula to increase the minimum wage from time to time and to directly deal with the needs of people who are on minimum wage.

Report of the Employer Representatives

WHAT IS MINIMUM WAGE?

The minimum wage is usually portrayed as the wage being paid to the working poor and we heard countless presentations that seemed to believe that raising the minimum wage would reduce poverty, but this is simply not true.

Minimum wage is a starting wage and is generally applied to people who are new to the workforce or to people who have not developed the skills that are necessary to quickly adapt to a new position and who require more supervision than others.

The hospitality industry is one of the largest employers of youth and is a key part of the future of this society. This industry takes raw talent and teaches them about how to behave and provides the skills necessary for them to be productive contributors to society in their future endeavors

The majority of these employees are students who are attending high school or university and are living at home. Their jobs in the hospitality help them pay their way through school and give them experiences and contacts that will stay with them for the rest of their lives.

Most of the employees in the hospitality industry are far from being minimum wage earners. They may be paid minimum or close to minimum, but they earn tips which increase their earnings to around the $12.00 per hour range on the average.

We feel that recognition needs to be given to industries that rely on youth employment and where tips are a major factor.

THE CHAIRS REPORT

The employer representatives come close to agreeing with many of the viewpoints of the chair John Goddard, but only if the exemptions are incorporated as the only discussions we had around this issue were based on what we could see the minimum being if exemptions were allowed. We did not cover to any great extent the amount of an increase to the minimum wage without exemptions, but we would probably want them to be minimal.

We could probably support linking it to some standard, but we would need to see the results of market basket approach, LICO etc. to determine which one to use. The A.L.L. standard as it is now set seems to be a fair standard, but further study is required before we come to a final decision. This could be done by the board at future meetings after our initial report is in.

We firmly endorse the chairs recommendation for a sub-minimum wage for workers under the age of 18, for tipped employees and for employees with less than three months tenure. If this is not in place all of our support in raising the minimum wage takes on a totally different perspective.

We support the concept of ensuring that everyone receives at least the full minimum when tips are included, but there should be no difference between cash tips and credit card tips. The responsibility of ensuring that all employees receive at least the minimum wage is the responsibility of the owner and they must have documentation to support this when requested by Employment Standards otherwise they are liable for the extra pay.

We agree that there are many possibilities that need to be taken into consideration when setting a minimum wage and there should be some flexibility to allow for hardship cases and unique situations. A set minimum for ALL could be harmful and result in lost employment in certain sectors or areas.

In regards to the agricultural workers we feel that we didn't receive enough input from this sector to make an informed decision.

We agree that the employers should be given at least 6 months notice of any increase. The ideal would be to give a 3 year projection of where the minimum wage is going to allow for business planning.

We can support a raise to $ 7.00 per hour over 3 years....25 cents per year, but this is **only if the exemptions as previously mentioned are accepted**. An increase of $1.00 over a one year period is far too much for sectors which do not have anything to gain from the exemptions. Future increases and linking it to a standard need some further discussion and study when ALL the possible standards are available.

We do not have any major objections to tying the minimum wage to some sort of standard, but we would need to see studies showing where the minimum wage would be if the chosen standard had been implemented 20 years ago.

We definitely agree that this consultation process should continue and that there should be an open mind on minimum wage as there are many different scenarios out there and we need to recognize the uniqueness of certain industries.

Bob Stevens
Hartley Klapman